EL AL ISRAEL AIRLINES LTD.

FINANCIAL STATEMENTS

AS OF JUNE 30, 2011

(unaudited)

CONTENTS

Update to Chapter A (Description of the Corporation Matter of Business)[1] to the 2010 Periodic Report (the "Periodic Report") of EL AL Israel Airlines Ltd. ("the Company")

The following are updates to Chapter A - a Description of the Corporation's Business Matters:

General

The Group's Concise Consolidated Financial Statements (hereinafter: "the Interim Financial Statements") have been prepared in accordance with the IAS 34, "Interim Financial Reporting". In the preparation of these Financial Statements the Group implemented accounting policy, rules of presentation and calculation methods identical to those implemented in the preparation of its Financial Statements for December 31 2010 and the year ending that date. Regarding the accounting policy implemented in the investment in an affiliate, see Note 2d to the Financial Statements.

Please note the following changes 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

IATA data indicates a slight slowdown in demand in June 2011 both in passenger traffic and in cargo traffic, with passenger traffic increasing 4.4% in comparison to June 2010 (in international and domestic flights), while cargo traffic dropped by 3%. Passenger traffic reflects a slower growth rate and growth in costs due to higher fuel prices and increased taxes in many countries.

According to data, presented by IATA, no change has occurred in the extent of cargo traffic since July-August 2010, with May 2010 showing record airborne cargo traffic. Compared to May 2010, cargo traffic in June 2011 dropped by 6%, despite a 7% yearly increase in global trade.

In June IATA published a new profit forecast for 2011. According to this new projection, airlines are expected to earn just $4 billion in 2011, a 54% drop from the previous IATA projection from March 2011, which predicted $8.6 billion in profits, and constituting a 78% drop from the net profit of $18 billion (revised from $16 billion) listed by airlines in 2010. Airline revenues are expected to reach $598 billion, therefore the net profit rate, out of total revenues, will amount to just 0.7%.

The drop in airline profits in IATA projections comes as a result of high fuel prices, natural disasters and political instability in the Middle East and North Africa

Key points of the projection:

Fuel: the cost of fuel is the main factor behind the drop in airline profitability. IATA predicts an average crude oil price of $110 per barrel (Brent price) in 2011, a 15% increase over IATA's previous forecast that predicted an average price of $95 per barrel. For each $1 increase in the average price of a barrel of oil, airlines have to deal with an additional $1.6 billion in costs. IATA estimates that 50% of airline fuel consumption is hedged to 2010 prices, and therefore airline fuel prices will increase by $10 billion and reach a sum of $176 billion, constituting 30% of total airline expenses.

Demand: despite the high fuel prices, global trade and the profitability of the business sector has continued to recover, and as a result a 3.2% increase is expected in the global GDP, which encourages the continued increase in demand for air transport. At the same time, IATA revised

[1] This update is in accordance with Regulation 39a of the Securities Regulations (Periodic and Immediate Reports), 1970 and includes material changes or additions that have occurred in the corporation's business on any matter to be described in the Periodic Report

its passenger and cargo traffic forecast downward. IATA now predicts that passenger traffic will increase by 4.4% in 2011 (compared to 5.6% in the previous forecast from March 2011) and cargo traffic will increase by 5.5% (compared to 6.1% in the previous forecast). According to data presented by IATA, in light of the increase in flight prices in the first five months of the year (due to fuel prices as well as increase in travel taxes in Europe), a 3-4% decrease occurred in leisure passenger traffic (price-sensitive traffic), while at the same time premium traffic (which is less price-sensitive) is expected to increase by 5-6% in 2011, due to the recovery in the global economy and trade.

Capacity: total capacity (both passengers and cargo) is expected to increase by 5.8%, compared to the expected 4.7% increase in traffic (both passengers and cargo). Airline s are having difficulty adjusting capacity to the decreased demand due to timetables commitments and their fixed expenses, and therefore a drop is expected in load factors and in aircraft usage which is expected to bring about a drop in profitability.

Yields: the global economic recovery allowed airlines to partially compensate themselves for the increased fuel costs by raising flight ticket prices. This is reflected in a 3% increase in yield per passenger (compared to an expected increase of 1.5% in the previous IATA forecast from March 2011) and a 4% increase in yield per ton of cargo (compared to an expected increase of 1.09% in the previous IATA forecast from March 2011).

Threats: the greatest threat to this IATA projection is a slowdown in the global economic growth rate, and the high oil and fuel prices that delay this growth rate.

The profitability of the airline industry at an average price of $110 per barrel of oil is dependent on a strong economy that will allow airlines to create sufficient levels of income so as to partially compensate for the increase in input prices.

By regional cross-section: January-June 2010 compared to January-June 2011:

מטען		נוסעים			אזור
AFTK	FTK	PLF	ASK	RPK	
שינוי לתקופה	שינוי לתקופה		שינוי לתקופה	שינוי לתקופה	
2.5%	-2.8%	64.1%	4.2%	-1.2%	אפריקה
2.7%	-3.5%	75.4%	6.3%	3.7%	אסיה
9.5%	5.0%	76.7%	12.3%	11.4%	אירופה
4.0%	6.9%	77.1%	13.9%	17.6%	דרום אמריקה
14.4%	9.8%	74.0%	10.1%	8.7%	מזרח תיכון
11.2%	5.4%	78.8%	9.3%	6.3%	צפון אמריקה
7.6%	**1.7%**	**75.9%**	**9.7%**	**8.0%**	**סה"כ**

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

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

FTK- Freight Ton Kilometer – the weight in tons of paid cargo (including mail) multiplied by the distance flown.

PLF - Passenger Load Factor – the occupancy rate in passenger flights (percentage of seats used).

ATK - Available Freight Ton Kilometer – total available cargo capacity (weight in tons of cargo including mail) offered for sale multiplied by the distance flown.

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 2011 saw 980,000 exits of Israelis via air, a 19% increase compared to the same quarter last year. In addition, in spite of the political instability and political events in countries in the region (Syria, Egypt, Tunisia, Libya), this quarter saw 679,000 tourist entrances via air (BGN and Eilat), which is an 8% increase over the same period last year.

In this regard, note that the number of Israeli departures and tourist arrivals was influenced by the fact that the Passover holiday fell in April this year (Q2), after falling in March (Q1) last year.

According to IAA data, total international passenger traffic through BGN increased by 11.5% in Q2 2011 vs. Q2 2010; the average load factor in passenger flights was 80.2% compared to 79.2% in Q2 2010.

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

The quarter ending June 30 2011 saw a 47% increase in the average market price of jet fuel compared to the same quarter last year. The effective average jet fuel price paid by the Company rose, after hedging activity, by 20.3% compared to the same quarter last year. During the quarter, fuel costs constituted 34.6% of the Company's turnover (in the second quarter of 2010 fuel costs constituted 31% of its turnover). The following data refers to jet fuel prices in the Med region, as quoted by Platts[1]. For further details, see Section b.1.(3) of the Board of Directors Report.

As of June 30 2011 the Company held an inventory of jet fuel purchased from suppliers in Israel and abroad worth $25.2 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 11.9% compared to June 30. 2010, and was revaluated by 3.8% compared to December 31. 2010. As of June 30. 2011, the exchange rate of the U.S. dollar vs. the euro was revaluated by 15.2% relative to June 30 2010, and by 7.8% relative to December 31. 2010. For further details, see Section b.1.(5) of the Board of Directors Report.

To item 6.5 – Interest Rate Fluctuations

The average 3-month Libor rate dropped by 40.3% in the quarter ending June 30. 2011 compared to the same quarter last year.

For further details see Section b.1.(4) of the Board of Directors Report.

1. Passenger Aircraft Activity

To Item 7.1.2 – Legislative Restrictions, Standards and Special Constraints Applying to the Field of Activity

Following that detailed in the December 31 2010 Financial Statements, regarding a petition to the High Court of Justice on the subject of security expenses, filed by the Company in 2008 regarding Government resolutions passed in 2008 ("the Petition), the Company issued an immediate report on July 11. 2011. (Ref: 2011-01-209949) stating that on the date in question the Court approved the Company's request to dismiss the petition without order to pay

[1]To the best of the Company's knowledge, Platts is a member of the McGraw-Hill Group, which has provided information regarding 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.

expenses, after the Company announced that talks were being held with the State on the matter of Israeli airline security issues.
Following the Company's August 14 2011 immediate report (ref: 2011-01-240759), on August 3 2011 the Company signed an understanding with the State of Israel, which is designed to arrange, if and when it comes into effect, the activity of the Israeli aviation security array ("the Understanding").
The Understanding mainly refers to a gradual increase in the State's participation in the security expense burden of Israeli airlines, from 60% (the current rate) to rates of 65% (in 2011), 70% (in 2012), 75% (upon the signing of the open sky agreement with the European Union) and 80% upon the implementation of the open sky agreement (as agreed upon in the understanding).
Whether or not the understanding comes into effect is dependent on the passing of a Government resolution by no later than the end of 2011. The submittal of the Understanding to the Government for a resolution, as noted, is subject to signing an additional agreement between the Company and the Ministry of Foreign Affairs and the Prime Minister's Office which shall arrange, among other things, the employment of aviation security workers and which will be subject to the approval of the Ministry of Finance.

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 the 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:
Ukraine – in June 2011 Israel and Ukraine signed a Memorandum of Understandings allowing additional Israeli and Ukrainian airlines to operate direct flights between the countries. According to the new agreement, each country will be allowed to operate via two scheduled airlines (instead of one today), on routes between Israel and Ukraine, with the exception of Tel Aviv-Kiev, in which each country is allowed to operate flights via three scheduled airlines, and the number of weekly flights on this route was increased to 24, instead of 21 flights as of today. On each of the other routes between Israel and Ukraine each side will be allowed to operate seven weekly flights. In addition, it was agreed that the quota of flights intended for the transportation of religious tourism from Israel to Ukraine over the course of the Rosh Hashanah period will be increased by 20% to 22,000 seats (11 seats on each side), with the special flights operated by three Israeli airlines: El Al, Arkia and Israir as well as by Ukrainian airlines.
Hungary – in June 2011 Israel and Hungary signed a new aviation agreement allowing additional Israeli and Hungarian airlines to operate direct weekly flights between the countries, totaling up to 30 weekly flights on the Tel Aviv-Budapest route (15 flights for each party).
In this context, note that the Company currently operates 6 weekly flights on the Tel Aviv-Budapest route while the Hungarians operate 13 weekly flights on this route. Additionally, the new agreement allows Israeli airlines to operate scheduled passenger flights to additional Hungarian destinations. It was also agreed that both countries' airlines will be able to operate code sharing flights, as well as with airlines from other countries.
Scheduled foreign airlines increased their capacity by 15% in the second quarter of 2011and passengers increased by 17% compared to the second quarter of 2010.
The Group's seat capacity, in international flights, has decreased by 2% in Q2 2011 and passenger traffic has decreased by 1%.
In all, passenger traffic through BGN airport, in the second quarter of 2011, has increased by 11.5% and seat capacity for all airlines together has increased by 10%.

Over the course of the summer season starting March 27 2011, which will continue to the end of October 2011, competition is expected to grow fiercer as a result of the entry of new airlines such as French airline Air Mediterranee that began operating flights on the Paris-Tel Aviv route in April 2011 and Norwegian Airlines that began operating weekly flights on the Stockholm–

Tel Aviv route starting late June 2011, and as a result of increased capacity/frequencies by existing airlines such as Air France, which began operating 3 daily flights in July-August and Korean Air, which is expected to add a fourth weekly flight on the Tel Aviv-Seoul route starting September 2011 for a 2-month period.

The Company announced that it would be closing its direct route to Sao Paolo, Brazil starting November 10. 20011, due to economic considerations and as part the Company's streamlining and expense reduction processes. The Company's flights to South American destinations will be carried out using the existing route network, with a variety of connections from Europe and North America.

Open Skies Agreement with the European Union

The round of talks between Israel and the EU regarding a new aviation agreement that was supposed to have taken place in July 2011 was postponed to an unknown date.

Domestic Activity

In its second quarter of 2011, the Company flew 57,000 passenger legs to Eilat and its share of domestic traffic to Eilat was 16%.

In August 2011, the Ministry of Transportation announced his intention to approve an additional daily flight to Eilat for the Company, based on the recommendations of the Civil Aviation Authority. According to the recommendation, the Company can increase its seat capacity to Eilat from 430 to 580 seats in each direction and operate 4 daily flights instead of the current 3, subject to a hearing held on the issues for the Company as well as for Arkia and Israir. Furthermore, the recommendation includes an expansion of the restriction on granting benefits to frequent flyer club members for the Eilat route in such a manner so as to prohibit the distribution of free tickets (or under preferred conditions) to and from Eilat to passengers on the Company's international routes. The Company is preparing to offer its response to the Civil Aviation Authority.

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

Over the course of the reported period, improvements were made to the Company's website, including adding the homepage in two additional languages: French and Russian, as well as improvements to the frequent flyer club, including design and technological improvements.

In addition, improvements were made to the El Al iPhone portal – which includes, among other things, takeoff and landing checks including the option of receiving notice of changes to desired flight times, express check-in applications, which allow mobile phone check-in as well as a kiosk for printing boarding passes. Furthermore, new applications were added for frequent flyer club members, allowing them to check their points and membership status, view their latest actions in their account and details of any action, as well as a point conversion calculator for all credit card companies. The portal also allows access to the Company site and viewing of Company PR videos.

ERP – high level design for the ERP application is planned for the coming months. When the stage is completed, the system parameters and application plan shall be established.

In July 2011 a new website was launched for the duty free array and the site management system was upgraded, allowing it to present a broader variety of products. The site provides an internet experience that encourages shopping. Products may be ordered in advance and received on the plane, as well as an option of making purchases with the combination of money and frequent flyer points.

<u>To Item 7.2 - Services in the Field of Operations - Continued</u>,

The following is data regarding developments in passenger traffic by central destination groups:

In total, passenger traffic through BGN airport has increased by 11.5% compared to the second quarter of 2010. Passenger traffic in the second quarter of 2011 was divided between the airlines as follows: El Al and Sun D'Or – 33.5%; other scheduled airlines – 53.5%; charter airlines – 13.1%.

Western European Routes

Western European routes saw a 12% increase in total passenger traffic in the second quarter of 2011, compared to the same period last year; foreign scheduled airlines listed a 20% increase in passenger traffic and a 19% increase in seat capacity.

The average load factor among foreign scheduled airlines was 80.1%.

The prominent airlines to increase their activity in Q2 2011 were as follows: Iberia, which operated 17 weekly flights on the Tel Aviv-Madrid route in this quarter, compared to 14 weekly flights in Q2 2010.

Dutch airline KLM increased its seat capacity by 71% (by moving to a larger aircraft) and listed a 50% increase in passenger traffic.

Air France added a third daily frequency on the Tel Aviv-Paris route starting late June 2011 and in total listed a 12% increase in passenger traffic. Air Berlin increased its activity and operated in 9 weekly frequencies to various German destinations compared to just 7 weekly frequencies in Q2 2010 and listed a 22% increase in passenger traffic.

British low cost airline Easy Jet operated in 7 weekly flights on the Luton-Tel Aviv route in this quarter compared to 6 flights on this route in Q2 2010 and listed a 30% increase in passenger traffic on this route in addition to its activity on the Geneva-Tel Aviv and Basel–Tel Aviv routes.

No change occurred in the Group’s seat capacity and passenger traffic on these routes.

The Group's average load factor in Q2 2011 was 84% and its share of total passenger traffic in this route network was 36.1%.

Routes to Central and Eastern Europe

In total, international traffic on routes to Central and Eastern Europe increased by 9% in the second quarter of 2011 compared to the same quarter last year, in light of a significant increase (+62%) in charter airline activity on this route network.

Scheduled foreign airlines listed a slight (-1%) decrease in their seat capacity and a 2% decrease in their passenger traffic.

The average load factor of scheduled foreign airlines was 67% in the second quarter of 2011 compared to 67.6% in the second quarter of 2010.

The Group decreased its seat capacity on these routes by 7% and listed a similar 8% decrease in passenger traffic. The Group's average load factor in this route network was 72.2%.

Routes to the CIS

Routes to Russia and CIS states listed a significant increase in total passenger traffic (+37%) and in seat capacity (+27%). Most of the increase was listed for routes between Russia and Israel (+20%) and between Ukraine and Israel (+111%). Scheduled foreign airlines operating on routes between Israel and Ukraine almost doubled their seat capacity (+96%) compared to the second quarter of 2010 and listed a significant increase (+180%) in their passenger traffic. Their load factor reached 76.7% compared to 53.8% in the same quarter last year.

Most of the increase in passenger traffic in the second quarter of 2011 derived from new airlines that had not operated on these routes in the second quarter of 2010:

Aeroflot, which had not operated in Q2 2010 and began operating 5 weekly flights on the Moscow route starting August 2010 and starting April 2011 operates 7 weekly flights on this route; Ukraine Air International, which operates 5 weekly flights on the Tel Aviv-Kiev route and is gradually beginning to operate 7 flights on this route; and Israeli airline Arkia, which began operating flights to Moscow.

In addition to the above, Ukrainian airline Aerosvit, which operated 19 weekly flights on routes between Ukraine and Israel in this quarter compared to 15 weekly flights it operated in the second quarter of 2010 along with Donbasaero.
During this period, the Group decreased the number of seats offered in this route network by 6% and the Group's passenger traffic on these routes decreased by 4% compared to the same period last year. The Group's share of passenger traffic on these routes in Q2 2011 was 23.2%.

Transatlantic Routes
No significant change occurred in this quarter (+1%) in total passenger traffic and seat capacity (0%) on these routes.
Delta operated just 4 weekly flights on the Atlanta route compared to 6 flights on this route in the same quarter last year and listed a 39% drop in passenger traffic on this route. At the same time, Delta increased its seat capacity on the New York route by 42% (by using a larger aircraft) and its passenger traffic to New York increase by a significant 47%. In total (on the New York and Atlanta routes together), Delta listed a 4% increase in its seat capacity and a similar increase (5%) in passenger traffic.
In the second quarter of 2011 the Company reduced its seat capacity in this route network by 2% and listed a 2% increase in passenger traffic.

Far East Routes
A 4% decrease occurred in passenger traffic on all Far East routes in Q2 2011 versus a similar increase in seat capacity in this route network.
Korean Air, which operates flights on the Tel Aviv-Seoul route, reduced its seat capacity by 8% and listed a 21% decrease in passenger traffic.
The Company increased its seat capacity on these routes by 7% but did not list a significant change (-1%) in passenger traffic.

Regional Network
A 9% increase in seat capacity was listed in this route network along with a 10% increase in passenger traffic compared to the second quarter of 2010.
The most prominent airlines to increase their activity in this route network in the second quarter of 2011 were Aegean Airlines, which operated 18 flights (scheduled and charter) per week to Greece and the Greek islands compared to just 11 flights (scheduled and charter) in the corresponding quarter last year, in total increasing its seat capacity by 76% and its passenger traffic by 87%; Cyprus Airways, which operated 9 weekly frequencies (compared to just 6 in the corresponding quarter last year) and in total increased its seat capacity by 36% and its passenger traffic by 18%; and Air Malta, which operated an average of 5 weekly frequencies compared to a single weekly frequency in the second quarter of 2010 and significantly increased its passenger traffic.
Note also that a sharp decrease was listed in traffic to Egypt (-59%), in light of the riots breaking out in Egypt in January 2011 and the continuing political instability in Egypt. The Company operated a limited number of flights on this route in Q2 2011 and it is continuing to adapt its activity on the route in accordance with the regional developments.
The Company operated routes only to Cairo and Greece during this period. The Group’s seat capacity on this route network decreased by 13% compared to the second quarter of 2010 and the number of Group passengers on this route decreased by 11%. The Group’s share of these routes reached a mere 8.7% in the second quarter of 2011.

To Item 7.4 – New Services

- ✓ Starting August 2011 the Company will begin offering for iPad2 devices duty-free sale on its flights (ordered in advance and on select flights) at an attractive price with the option to purchase with a combination of money and points.
- ✓ In August 2011 collaboration was launched between the Company and Steimatzky Books titled “Our Story”, in which children flying on El Al flights during the month in question are invited to take part in an award-bearing children’s drawing competition.

- ✓ The El Al Ambassador initiative – in September 2011 the Company is expected to launch a new initiative, in conjunction with the Israeli Ministry of Foreign Affairs and leading global publicity firms, intended to assist various Ministry of Foreign Affairs consulates to promote a positive, non-political agenda that can present a “different image” of the State of Israel. As part of the initiative, a high-quality group of pilots, flight service managers and flight attendants were carefully selected, underwent training and will be voluntarily integrated into the official public relations array of the State of Israel during their tours of duty overseas.
- ✓ The Company began collaboration with the ICast website in which the site provides the Company with a number of books on tape for the flight entertainment systems. Starting July 2011 the Company's planes offer a number of books on tape from leading authors.
- ✓ In May 2011 a code sharing agreement was signed with South African Airlines. The agreement is based on a block seats format, with the Company allocating a regular quota of seats to the SAA on its flights on the Johannesburg-Tel Aviv flights. In the second stage, and with SAA’s consent, the agreement will be expanded to destinations in South Africa, in such a manner that will allow the Company to add its code to internal SAA flights from Johannesburg to various South African destinations, in both directions. The code sharing agreement based on the free sale format was cancelled by the Company in 2009. The current agreement requires the approval of the Israeli Anti Trust Authority and the Ministry of Transportation as well as approvals by relevant South African authorities, as a precondition for its activation.

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To Item 7.10 – Manufacturing Ability

No change occurred to the Company’s ASK in the second quarter of 2011, and the Company's RPK increased by 1.2% compared to the same quarter last year. As a result, a 1% increase was listed in its weighted load factor to 81%, compared to 80.2% in the same quarter last year.

To Item 7.11 – Aircraft Fleet in the Passenger Aircraft Field

Following the Company’s Periodic Report, dated December 31. 2010, regarding its passenger aircraft fleet, the following are key changes:

- ✓ Following the agreement signed with R.B. Leasing Company Limited. for the purchase of a 747-400 aircraft., the airplane was received at the Company in early March 2011. The maintenance and engineering works have been completed and the plane began its commercial activity in July 2011.
- ✓ In July 2011 the Company signed an agreement with a subsidiary of the International Lease Finance Corporation to lease a 767-300ER aircraft, manufactured in 1998, starting November 2011, for a lease period of 6 years.
- ✓ In late August 2011, the Company is expected to return a leased 757-200 airplane (EBS) to its owners (M.K. Aviationa, S.A.).
- ✓ In May 2011 the Company signed an agreement with engine manufacturer CFM International S.A. for the purchase of a spare engine for its 737 aircraft fleet. The engine was received at the Company in July 2011. See Section 9.8.5 below for details regarding the transaction’s financing.

2. Cargo Aircraft Activity

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

According to the Company's estimation, 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 31.5%, this in comparison with 35.2% in the same period last year.

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

According to IATA reports, in January-June 2011, international transportation of cargo (including in passenger aircraft holds) increased by 1.2% compared to the same period last year, an increase in activity at a lower rate that the projected yearly rate according to IATA estimates (5.6%).

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

According to the Israeli Airport Authority data, in April-June 2011, cargo traffic through BGN airport decreased by 2.3% relative to the parallel period last year. In the first half of 2011 cargo traffic at BGN airport dropped by 3.4% relative to the first half of 2010.

To Item 8.1.5 – Technological Changes that May have a Material Impact on the Field of Activities

The Company has successfully completed the development of an interface between the cargo system and Israeli customs, which will be followed by a pilot that will continue over the coming months. Over the course of Q2 2011 additional European destinations began receiving automatic messages from the cargo system, in response to the requirements of European customs authorities.

To Item 8.2 - Services in the Field of Activity.

In April 2011 the Company stopped operating a weekly flight to Hong Kong using its 747-400F cargo plane. From April 3 2011 to May 19 2011, the Company operated just one designated cargo plane (747-200F) due to, earlier than planned, routine maintenance work for its 747-400F plane.

To Item 8.5 – Customers, Marketing and Distribution

On June 30 2011, the Tel Aviv District Court issued an order to freeze all legal proceedings against Agrexco (Company's client) at Agrexco’s request, which was extended to August 30, 2011. As a result, the Company began working with Agrexco solely on a cash basis, but at the same time, no material impact is expected on the Company’s Financial Statements.

To Item 8.10 – Aircraft Fleet

Following the Company’s Periodic Report, dated December 31. 2010, starting June, the Company completed its discontinuation of operations of its 747-200 cargo airplane (AXL) due to the need for massive maintenance works required for its continued activity. The Company approached the State for its consent to remove the plane form service. Simultaneously, and subject to the approval of the State, alternatives to the airplane’s sale are being reviewed.

3. Details on Both Fields of Operation

9.1- Fixed Assets and Installations – Terminal 3

In March 2011 the Airports Authority informed the Company that it had decided not to exercise its option in the agreement between the Airports Authority and the Company allowing an additional extension of 24 months for the provision of services for managing and operating the Company passenger lounge. The agreement ends on November 1 2011. The Airports Authority informed the Company that it is preparing for the publications of a tender for a commercial license to operate the lounge. The Company objects to the refusal to extend the agreement and is negotiating to extend the contract.

To Item 9.4.2 – Employees

Pursuant to Item 9.4.2 of the Periodic Report, the following is an updated table of the Company's employees as of June 30 2011:

December 31 2010	June 30 2011	
3,814	3,846	Regular employees
2,150	2,252	Temporary employees
5,964	**6,098**	**Total employees**

To Item 9.4.7 – Special Collective Agreements

The Company is holding talks with the Histadrut regarding the request by the Assistant Security Officers in Israel to form a union under the Company's collective agreement.

To Item 9.4.16 – Executives and Senior Management

Following the CEO's announcement regarding the establishment of the "Excellence and People" fund for the development, encouragement and promotion of the subject of social and personal excellence, the Company established criteria for the issue of excellence grants and began operating the program in August 2011.

Following the Company's May 24. 2011 Immediate Report (Ref: 2011-01-160155), dated May 22 and May 24 2011 the Company's Audit Committee and Board of Directors approved an engagement, through the Company's controlling shareholder Knafaim, with Menorah Mivtachim Insurance Ltd. for the renewal of the Director and Officers insurance policy for an additional period. The insurance is within the framework of a collective insurance policy prepared by Knafaim for its executives, in subsidiaries and affiliates, in accordance with the framework agreement ratified by the general meeting of the Company's shareholders dated May 10 2005 ("the Framework Agreement"). In accordance with the terms of the Framework Agreement, the policy is limited to $100 (one hundred) million U.S. as well as an added 20% from the above liability limit for legal defense expenses in Israel.

The policy shall remain in effect from April 1 2011 to September 30 2012 (and in the matter of directors who are controlling shareholders – subject to Section275 (a1)(1) of the Companies Law, 1999-5759).

In accordance with the terms of the framework agreement, the Company's share of the insurance fees is a sum of $140,000 a year (and relative to an 18 months period - $211,000), which constitutes 65% of the insurance fees for the group policy. The self participations between $10 and $75 thousand (according to the type and nature of the claim).

The Audit Committee and Company's Board of Directors approved the engagement in accordance with Regulation 1(3) of the Companies Regulations (Relief in Transactions with Interested Parties), 2000-5760 and determined that the engagement is compatible with the terms set in the framework transaction (the arguments were detailed in the aforementioned immediate report).

To Item 9.7.1- Sun D'Or International Airlines Ltd. ("Sun D'Or")

Following the Company's reports regarding the cancellation of Sun D'Or's operational license on April 1 2011, Sun D'Or continues to market the flights operated by it in the past which are carried out by the Company (on weekdays) and by other airlines (on weekends and holidays). Sun D'Or acts as a tourism organizer while preserving the Sun D'Or brand for charter flights marketed by it. Note that as a result of this change in activity, a significant 22% drop occurred in Sun D'Or's total activity (on routes to Western, Central and Eastern Europe).

Sun D'Or recently submitted an official request to the CAA to receive a new operational license.

To Item 9.8.3 – Credit Frameworks

The Company's credit frameworks amounted to $69 million as of June 30 2011, (including $29 million from hedging institutions), $24 million of which were guaranteed frameworks.

To Item 9.8.5 – Loans for Unique Use

As of June 30 2011, the balance of loans from banking and other corporations, including short term borrowings, amounted to $705.8 million.

a. In July 2011 the Company signed an agreement with a banking institution for $14 million loan. According to the agreement, credit was extended for an additional year, with the parties determining the terms of the redeployment of the uncleared balance remaining in April 2012 over the course of this period. This sum is presented in the June 30. 2011 Financial Statements under Current Liabilities in the Short-Term Borrowing and Current Maturities item.
b. The repayment date of a loan from a banking organization to the amount of $60 million will fall in August 2011. This sum is presented in the June 30 2011 Financial Statements under Current Liabilities in the Short-Term Borrowing and Current Maturities item. On August 4 2011 the Company signed an agreement with the banking institution according to which a follow-up loan would be provided in lieu of the existing $50 million US loan. The loan shall be spread out across a 6-year period, shall be paid in semiannual principal and interest refunds and shall bear interest of Libor plus a margin.
c. Following the agreement signed with engine manufacturer CFM International S.A. in May 2011 for the purchase of a spare engine for its 737 aircraft fleet, the Company signed an agreement with a foreign to the amount of $3.9 million bank to finance the engine. The loan is in U.S. dollars, for a 7-year period with quarterly principal and interest payments and bears fixed interest. For the purposes of this loan, a lien was placed on the engine and a guarantee was received from the Exim U.S. export and import bank. The engine was received at the Company in July 2011 for service in its 737 fleet.
d. The redemption date of a loan from a banking institution to the amount of $120 million will arrive in July 2013. In August 2011 the Company approved an agreement with the banking institution according to which the balance of the loan as it is today ($157 million), including principal payments remaining until the original repayment date, shall be spread out across a period of 6 years from the signing date. A $53 million balloon balance shall remain at the end of this period. The loan is in USD and bears variable Libor interest plus a margin. Principal and interest payments are quarterly payments. This sum is presented in the June 30. 2011 Financial Statements under Current Liabilities in the Short-Term Borrowing and Current Maturities item and Non-Current Liabilities in the Loans from Banking Corporations item.

To Item 9.11.2 (j) - Limitations and Supervision of the Corporation's Business

Following the Company's reports, on July 14 2011 the incidence of the exception of tourism and flight services outside of Israel from the Consumer Protection Regulations (Cancelling Transactions), 2010-5771 was extended by an additional 2 months, to September 14. 2011.
Furthermore, in July 2011 the Passenger Compensation and Assistance due to Flight Delay or Postponement Bill, 2011, submitted by MK Achmed Tibi, passed its first vote by the Knesset Economics Committee, stating that in cases of flight cancellations, flight delays or the refusal to allow a passenger on board a flight and under the terms and circumstances determined by the law, passengers shall be entitled to benefits such as free assistance, reimbursements, alternate tickets or even financial compensation.

Added Item 9.11.2 (n) – Restrictions and Supervision of the Corporation's Business

On April 25 2011 the U.S. Department of Transportation (DOT) published a new passenger rights protection law for domestic U.S. flights and flights to and from the U.S., which includes new requirements regarding the current situation as well as changes to existing legal requirements. Some of the legal requirements will come into effect on August 23. 2011 and other requirements, which require greater preparations by the airlines, will come into effect on January 24. 2012. Among the new requirements included in the law: providing reports to the DOT on flight delays of 3 hours and longer after passengers have boarded the flight, the option of disembarking the aircraft after 4 hours, adopting plans of action in the event of such extended delays and preserving documentation, announcements for passengers regarding delays, cancellations and flight diversions, known in advance, adoption of service plans that include various mandatory requirements, establishing minimum standards for handling passenger problems and responses to passenger complaints, the requirement to present a full price, full disclosure of luggage costs and other costs related to the flight and new rules regarding overbooking flights and treatment of unwillingly postponed passengers. The Company is studying the new law and is preparing for its implementation.

To Item 9.11.3 – Business Licenses, Building Permits and Employment Permits

In August 2011 the Company received a permit to employ workers during the weekly rest period from the Ministry of Industry, Trade and Employment, in accordance with its request, in effect to December 31. 2012.

To Item 9.11.12 –Security Arrangements

Recently a number of countries have been showing signs of toughening on the issue of approvals to uphold security arrangements in overseas airports, due to concerns regarding an escalation of the difficulties involved in carrying out Israeli security

To Item 9.12 – Essential Agreements

Following price quotes the Company received from various fuel companies for the supply of jet fuel abroad, in May 2011 the Company approved engagements with 15 fuel companies. The Company is currently negotiating with the fuel companies regarding the terms of the agreements.

In June 2011 an extension and correction agreement was signed with United Technologies International Inc. which operates through engine manufacturer Pratt & Whitney, for the maintenance of PW4000 engines. According to the agreement, the Company was given various credits due to of the move by the manufacturer’s maintenance factory to Singapore.

To Item 9.14 – Legal Proceedings

Following Item 9.14.4 of the Company’s December 31. 2010 Periodic Report, the sum of the provision for the air cargo transport service prices civil suit in the U.S. was increased, this among other reasons due to talks with the plaintiffs and in light of an update the Company received from its legal counsel regarding the sizes of the settlements between the plaintiffs and other airlines.

Following the Company’s August 1. 2011 Immediate Report (Ref: 2011-01-227256), on July 31. 2011 the Company's main office received a motion to approve a claim as a class action, filed against the Airports Authority, the Company, Israir Aviation and Tourism Ltd., Arkia Israeli Airlines Ltd. and the General Security Services, at the Nazareth District Court. The subject of the motion is the plaintiff’s claim that Israeli Arabs, while departing and/or arriving at Israel, are discriminated against due to the unique security screening they undergo. The personal sum of each plaintiff’s claim amounts to 100,000 NIS. The number of potential claimants is estimated by the plaintiffs at one million Arab citizens. The Company is studying the motion and will act to file its response to the Court.

Following the Company’s June 1 Immediate Report (Ref: 2011-01-172443), on May 30. 2011 the Company’s main office received a motion to approve a claim as a class action, which was filed before the Haifa District Court. This motion was on the matter of plaintiff's argument according to which the Company is overcharging cancellation fees for off-site transactions at a rate exceeding the maximum rate permitted under the Consumer Protection Law. The motion did not note a precise sum for the class action, but the plaintiff noted that he estimated the sum of the claim at “tens of millions of shekels at the least”. The Company is studying the motion and will act to file its response to the Court.

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 2011

Overview

1.1 Points of emphasis for the Reported Period

We hereby present the Report of the Board of Directors on the State of the Corporation's Affairs for the period ending June 30, 2011.

Total passenger traffic through Ben Gurion Airport in the second quarter of 2011 amounted to 3.1 million passengers compared to 2.8 million passengers in the second quarter of 2010, an 11.5% increase, while airborne cargo decreased by 2.3% to 72.1 thousand tons compared to 73.9 thousand tons in the same quarter last year.

The Group flew some 1,067 thousand passenger legs and 24.2 thousand tons of cargo on international and domestic flights this quarter, a 4.1% increase in passenger legs (mainly due to the flights to Eilat beginning August 2010) and a 5.4% decrease in cargo tons compared to the same quarter last year.

The Group's market share in international scheduled and charter flights amounted to 33.5% compared to 37.7% in the same quarter last year, and the average load factor for the quarter was 81.1% compared to 80.1% in the same quarter last year.

Key exogenous factors impacting the Company's operating results in the reported quarter compared to the same quarter last year were: a 47% increase in the average market price of jet fuel, a 40.3% average decrease in Libor interest rates, a 9.0% revaluation of the average rate of the NIS vs. the USD and a 13.1% revaluation of the average rate of the EUR vs. the USD.

In the second quarter the Group invested a total of $24.4 million in fixed assets including $8.0 million in a spare engine, redeemed current loans to the amount of $18.4 million and received loans, mainly for financing a 747-400 aircraft and spare engine to the amount of $18.3 million. The Company's online sales increased by 14% in the reported quarter compared to the same quarter last year.

In the second quarter of 2011 the Company saw an operational loss of $23.2 million compared to an operational profit of $25.0 million in the corresponding quarter last year. The loss for the reported quarter amounted to a total of $19.7 million compared to a profit of $14.8 million in the second quarter of 2010.

In the second quarter of 2011 the Company saw a cash flow from current activities to the amount of $20.2 million (a cash flow of $82.9 million in the second quarter of 2010).

The Group's cash balances, cash equivalents and short term deposits as of June 30, 2011 amounted to a total of $179.2 million, while equity as of June 30, 2011 amounted to a total of $193.4 million.

1.2 Changes in International Standards (IFRS)

For further details regarding the standards and the impact of their application to the Group's Financial Statements, see Note 3 to the December 31, 2010 Financial Statements. Regarding the implementation of IAS 28 due to the first-time achievement of material influence in Maman, see Note 2d to the Financial Statements.

1.3 The Company and its Business Environment

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

The key activities of the Company and its subsidiaries are the transport of passengers and freight on scheduled flights, and on the matter of the transport of passengers, also on charter flights between Israel and foreign countries and starting August 2010, on domestic flights as well. 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 and domestic civil aviation industry, and inbound and outbound tourism, which is characterized by its seasonal nature and strong competition, which grows stronger in periods of excess 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 holds 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), with 60 foreign airlines that operate scheduled flights and over 60 foreign charter airlines. Revenues of this segment constituted 90.3% of the Group's total revenues in the second quarter of 2011.

b) Cargo aircraft activity – in this segment, the Group transports cargo in cargo aircraft (1). In the field of cargo transport, the Company competes with one Israeli airline (CAL) and with 6 foreign airlines operating cargo aircraft on a continuous basis, and with most of the scheduled airlines that operate passenger planes that carry cargo in their holds. Revenues from this area of activity constituted 4.4% of all of the Group's revenues in the reported period.

The Group has additional revenues that are not assigned to its major areas of activity, accounting for 5.3% of its total revenues.

For further details regarding the Company's areas of activity, see Section 5a of the Board of Directors Report.

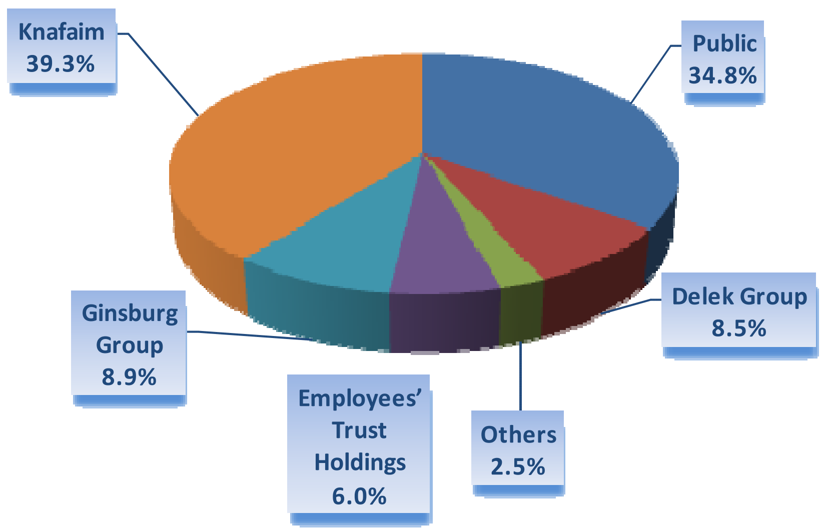
(1) As of the end of the reported period, the Company is transporting cargo in a single leased cargo plane.

1.4 Holdings of Company Shareholders

As of June 30, 2011, holdings in the Company were:

Knafaim Holdings Ltd. ("Knafaim") – 39.3%, the Ginsburg Group – 8.9%, a Company employee corporation called "Holdings in Trust of El Al Employees Ltd." ("Employees Corporation") – 6.0%, the Delek Group - 8.5%, others – 2.5%, the public – 34.8%.

Holdings in Company Shares as of June 30, 2011 (undiluted):



a. Explanations of the Board of Directors for the State of the Corporation's Affairs:

a.1 Financial Position (Consolidated Statements)

	30.06.2011 in thousands US dollars	31.12.2010 in thousands US dollars	change in thousands US dollars
Current assets			
Cash and cash equivalents	150,217	111,002	39,215
Short-term deposits	29,016	63,565	(34,549)
Trade receivables	178,997	132,960	46,037
Other accounts receivables	26,875	20,880	5,995
Derivative financial instruments	27,577	42,190	(14,613)
Prepaid expenses	35,968	26,995	8,973
Inventories	34,750	18,756	15,994
Total current assets	**483,400**	**416,348**	**67,052**
Non-current assets			
Long-term bank deposits	1,775	1,869	(94)
Investment in affiliated companies	14,354	693	13,661
Investments in other companies	1,234	11,552	(10,318)
Derivative financial instruments	-	4,291	(4,291)
Fixed assets, net	1,225,688	1,231,687	(5,999)
Intangible assets, net	8,048	7,844	204
Prepaid expenses	6,211	8,121	(1,910)
Assets due to employee benefits	40,708	38,799	1,909
Total non-current assets	**1,298,018**	**1,304,856**	**(6,838)**
Total Assets	**1,781,418**	**1,721,204**	**60,214**
Current liabilities			
Borrowings and current maturities	155,863	147,587	8,276
Trade payables	180,541	157,912	22,629
Other payables	71,729	49,625	22,104
Provisions	32,824	44,939	(12,115)
Derivative financial instruments	5,157	2,329	2,828
Employee benefit obligations	111,840	98,712	13,128
Unearned revenues	326,983	231,204	95,779
Total current liabilities	**884,937**	**732,308**	**152,629**
Non-current liabilities			
Loans from financial institutions	543,636	561,084	(17,448)
Employee benefit obligations	66,573	65,590	983
Derivative financial instruments	11,610	19,739	(8,129)
Other payables	7,615	10,700	(3,085)
Deferred taxes	23,409	32,792	(9,383)
Unearned revenues	50,257	51,467	(1,210)
Total non-current liabilities	**703,100**	**741,372**	**(38,272)**
Shareholders' equity	**193,381**	**247,524**	**(54,143)**
Total liabilities and equity	**1,781,418**	**1,721,204**	**60,214**

The Main Changes in Asset, Liability and Shareholders' Equity Items as of June 30 2011

Current assets:

The Company's current assets increased by $67.1 million relative to December 31, 2010.

Most of the increase derived from the Customers item – as a result of a seasonal increase (summer vacation sales) and the increase in jet fuel reserves held by the Company. Increase was also listed in cash, receivables and prepaid expenses.

The following changes occurred to the Company's derivative financial instruments (presented in the Financial Statements under 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 $13.6 million decrease compared to the fair value at the end of 2010, as a result of transactions reaching redemption, from transactions sold and from additional transactions occurring in the reported period and from changes in the fair value of transactions still open as of the balance sheet date. The decrease in the fair value of derivative financial instruments was expressed in a $7.8 million increase (net after tax) in the capital reserve in respect of cash flow hedges recognized directly in equity, in an $2.4 million net increase in deferred tax liability, in an $5.7 million net increase in fuel and financing expenses n the Statement of Operations and in an $18.1 million net increase in cash balances as a result of the sale of jet fuel hedging transactions recognized for accounting purposes and from the purchase of jet fuel hedging options. For further details see b1(3), b1(4) and b1(5) below and Note 5 to the Financial Statements

Non-current assets:

The Company's non-current assets decreased by $6.8 million relative to December 31, 2010.

A decrease occurred in the fixed assets item. On the one hand, an increase was listed as a result of the purchase of a 747-400 aircraft, the payment of advance payments on account of a 737-900 aircraft transaction and the purchase of an alternate CFM engine, while on the other hand this item decreased as a result of the depreciation accumulated in the period. Investment in affiliates increased as a result of a receipt of an additional portion of 3.75% of Maman's stock capital. Due to the first-time achievement of material influence in Maman, the investment listed in the December 31 Financial Statements under "investment in other companies" was classified in this report under "investment in affiliated companies"; for further details see Note 6a to the Financial Statements. In addition, a decrease occurred in the fair value of non-current financial derivatives.

Current liabilities:

The Company's current liabilities increased by $152.6 million relative to December 31 2010. Most of the increase derived from the increase in unearned revenues from the sale of flight tickets deriving mainly from advance sales for the summer season. An increase occurred in the employee benefit obligations item mainly as the payment of the December 2010 salary was pushed forward to December 31 while the salary for June 2011 was paid on time, meaning on July 1, 2011. Additionally, an increase occurred in this item as a result of the revaluation of the NIS relative to the dollar. Trade and other payable items increase both as a result of seasonality and as a result of rising prices, mainly in the field of jet fuel. A decrease was listed in the provisions item as a result of the payment of the agreed-upon debt to Income Tax deductions (see Note 6f to the Financial Statements), offset in part by the listing of an additional provision for a civil cargo claim in the U.S. (see Note 27.c.(3) to the December 31, 2010 Financial Statements), as well as Note 10d to the June 30, 2011 Financial Statements.

Non-Current Liabilities:

The Company's non-current liabilities decreased by $38.3 million relative to December 31, 2010. Most of the decrease derived from the loans from banking corporations item as a result of current repayment of loans less the receipt of new loans from banking corporations and from the resorting of loans to the current maturities item (regarding the spreading of balloon loans from banking institutions see Note 9 to the Financial Statements). Liabilities due to derivative financial instruments also decreased. The net deferred tax liability decreased mainly as a result of the loss for the period.

Shareholders' Equity

Equity decreased by $54.1 million as of December 31, 2010.

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

As of June 30, 2011, the Company has a working capital deficit of $401.5 million, compared to a deficit of $316.0 million on December 31, 2010. The Company's current ratio as of June 30, 2011 amounted to 54.6% compared to 56.9% as of December 31, 2010. The main reason behind the increase in working capital was the increase in unearned revenues from the sale of flight tickets as a result of sales for the summer vacations; in addition, current liabilities as of June 30, 2011 include current maturities to the amount of 60.0 million due to a balloon loan from an Israeli banking institution the repayment date of which is August 2011. According to an agreement signed in August 2011 between the Company and the lending bank, the loan will be spread out for a six-year period in such a manner that $41.7 million of it will be classified under non-current liabilities in the September 30, 2011 Financial Statements and this will reduce the working capital deficit (see Note 13h to the Financial Statements).

The working capital deficit consists of three material elements included under the Company's current liabilities items and characterized by current business cycles: unearned revenues from the sale of flight tickets including port taxes, unearned revenues from frequent flyer clubs, and employee vacation obligations. Therefore, the vast majority of the working capital deficit is not cash-flow based and allows the Company to redeem its liabilities.

a.2 Analysis of El Al's Business Results

a.2.1 Market Data

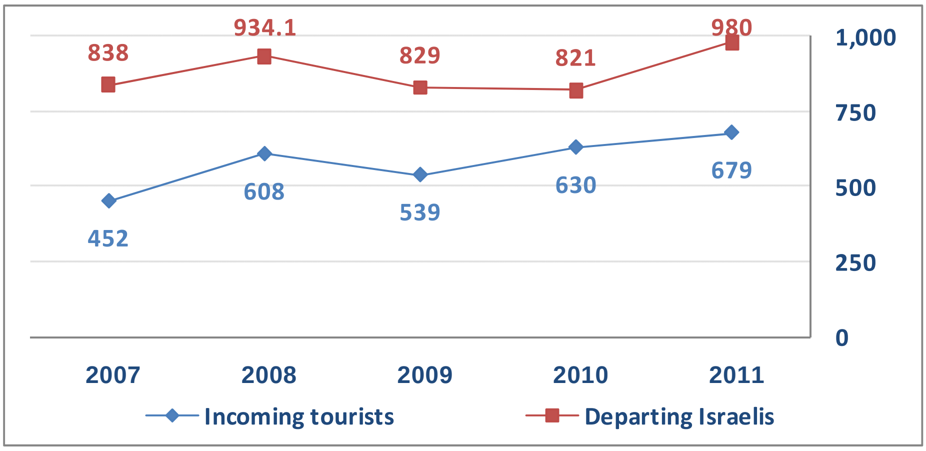
Passenger and cargo traffic at BGA	April - June 2011 in thousands	April - June 2010 in thousands	change in thousands	%
Incoming tourists *	679	630	49	8%
Departing Israelis *	980	821	159	19%
Cargo import - tons **	33	33	0	0%
Cargo export - tons **	39	41	(2)	(5%)

Passenger and cargo traffic at BGA	Jan - June 2011 in thousands	Jan - June 2010 in thousands	change in thousands	%
Incoming tourists *	1,232	1,133	99	9%
Departing Israelis *	1,616	1,487	129	9%
Cargo import - tons **	70	67	3	4%
Cargo export - tons **	80	88	(8)	(9%)

* Source: Central Bureau of Statistics.

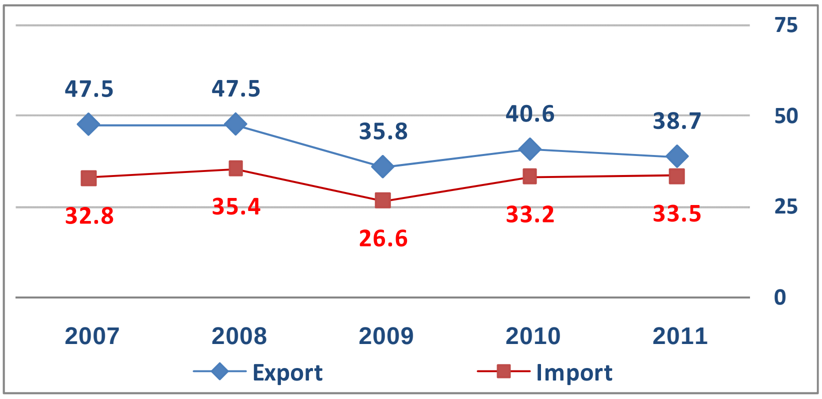
** Does not include cargo in transit.

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 First Quarters of (In Thousands of Tons):



Source: Civil Aviation Authority.

a.2.2 Company Operating Data*

	April - June 2011	April - June 2010	change
Passenger leg (scheduled and chartered) - in thousands	1,067	1,025	4%
RPK (scheduled) - in millions	4,484	4,412	2%
ASK (scheduled) - in millions	5,530	5,506	0%
Load factor (scheduled)	81.1%	80.1%	1%
The Company's market share (scheduled and chartered)	33.5%	37.7%	(11%)
Flown cargo, in thousand tons	24.2	25.6	(5%)
RTK - in millions	129.4	137.3	(6%)
Weighted flying hours (including leased equipment) - in thousands (*)	41.5	41.7	(0%)
Average man-years (El AL only):			
Permanent	3,858	3,826	1%
Temporary	2,248	2,032	11%
Total	6,106	5,858	4%

	Jan - June 2011	Jan - June 2010	change
Passenger leg (scheduled and chartered) - in thousands	1,956	1,869	5%
RPK (scheduled) - in millions	8,214	8,168	1%
ASK (scheduled) - in millions	10,390	10,133	3%
Load factor (scheduled)	79.1%	80.6%	(2%)
The Company's market share (scheduled and chartered)	35.5%	38.8%	(8%)
Flown cargo, in thousand tons	53.2	50.9	4%
RTK - in millions	281.4	267.4	5%
Weighted flying hours (including leased equipment) - in thousands	80.6	77.9	3%
Average man-years (El AL only):**			
Permanent	3,865	3,818	1%
Temporary	2,160	1,953	11%
Total	6,025	5,770	4%
Aircraft in operation - end of period - number of units	40	39	1
Average age of owned fleet at the end of the period - in years	13.4	13.0	0.4

* Operating data refers both to international and domestic activity.

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 Boeing 767/757 terms.

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, 2011 (Consolidated Financial Statements):

Key factors that influenced the business results in the three-month period ended June 30, 2011 compared with the same period last year:

	April - June 0		April - June 2010		change	
	in thousands US dollars	% of operating revenues	in thousands US dollars	% of operating revenues	in thousands US dollars	%
Operating revenues	530,499	100%	*502,372	100%	28,127	6%
Operating expenses	(470,156)	(88.6%)	(400,946)	(79.8%)	(69,210)	17%
Gross profit	60,343	11.4%	101,426	20.2%	(41,083)	(41%)
Selling expenses	(55,931)	(10.5%)	(52,926)	(10.5%)	(3,005)	6%
General and administrative expenses	(24,940)	(4.7%)	(22,760)	(4.5%)	(2,180)	10%
Other operating expenses, net	(2,643)	(0.5%)	(737)	(0.1%)	(1,906)	259%
Operatin profit (loss) before financing	(23,171)	(4.4%)	25,003	5.0%	(48,174)	
Financing expenses	(7,502)	(1.4%)	(8,449)	(1.7%)	947	(11%)
Financing income	8,016	1.5%	3,190	0.6%	4,826	151%
The Company's share of the profits of subsidiaries, net of tax	145	0.0%	-	0.0%	145	
Profit (loss) before income taxes	(22,512)	(4.2%)	19,744	3.9%	(42,256)	
Tax benefit (expense)	2,804	0.5%	(4,902)	(1.0%)	7,706	
Profit (loss) for the period	**(19,708)**	(3.7%)	**14,842**	3.0%	(34,550)	

* Restated - see Note 5 to the Financial Statements.

In the second quarter of 2011 the Company's revenues increased by $28.1 million relative to the corresponding period last year – a 5.6% increase, however the sharp 47% increase in average jet fuel market prices which increased the expense (before hedging activities) by $63 million ($28 million after hedging), increased fuel expenses to a peak rate of 34.6% of turnover. The revaluation of the average NIS exchange rate (9%) and that of the euro (13.1%) relative to the USD led to a further increase in the Company's operating costs.

In addition, seat offerings by foreign scheduled airlines operating at BGN continued to increase by 13% compared to the second quarter of 2010 and an accumulated 67% since the second quarter of 2006, while passenger traffic through BGN increased by 9.9% and 32%, respectively only.

Operating revenues – operating revenues increased 5.6% in the reported quarter relative to the same quarter last year. Passenger revenues increased both due to an increase both in the number of passenger kilometers transported by the Company and an increase in the yield per passenger kilometer as well as the revaluation of the exchange rate of the euro relative to the dollar. Cargo transport revenues also increased, despite the drop in the amount of cargo transported, mainly as a result of an increase in yield per ton-kilometer.

Operating expenses – the second quarter of 2011 saw a 17.3% increase in the Company's operating expenses compared to the corresponding period last year, mainly as a result of the increase in jet fuel expenses and an increase in salary expenses as detailed below, as well as the revaluation of the euro relative to the dollar. The operating expenses rate increased from 79.8% in the second quarter of 2010 to 88.6% in the reported quarter.

• Salary expenses in the second quarter of 2011 increased relative to the same period last year. Most of the increase derived from the revaluation of the NIS relative to the USD and from the application of the salary agreement. 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 increased by an average of 47% compared to the same quarter last year, while the Company's effective price after hedging activity increased by 20.3%. The Company received jet fuel refunds payments to the amount of $20.9 million in the reported quarter, which were charged to gain/loss (relative to $19.7 million in hedging payments in the corresponding quarter last year). The drop in the fair value of hedging agreements, not recognized for accounting purposes, charged to gain/loss increased jet fuel expenses for the quarter by $8.8 million.

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

The **gross profit** rate dropped from 20.1% of turnover in the second quarter of 2010 to 11.4% in the reported quarter.

Selling expenses – selling expenses increased compared to the same quarter last year, mainly as a result of the increase in salary expenses as explained above, while at the same time their share of the turnover remained unchanged relative to the corresponding quarter last year.

General and administrative expenses – general and administrative expenses increased mainly as a result of the salary increase and their rate out of turnover increase from 4.5% to 4.7% in the reported quarter.

Other expenses, net – in the reported quarter the Company listed other net expenses to the amount of $2.6 million, mainly as a result of an additional provision for a civil cargo suit in the U.S. (see Note 10.d to the June 30 2011 Financial Statements) compared to a $0.7 million expense in the same quarter last year.

Operational loss in the reported quarter amounted to $23.2 million, 4.4% of turnover, compared to an operational profit in the corresponding quarter last year of $25.0 million, 5.0% of turnover.

Financing – the Company listed net financing incomes of $0.5 million in the reported quarter, compared to net financing expenses of $5.2 million in the corresponding quarter last year. Most of the change derives from a drop in Libor interest rates and from receipts due to exchange rate hedging transactions.

Pre-tax loss for the reported quarter amounted to $22.5 million compared to a pre-tax profit of $19.7 million in the corresponding quarter last year.

Loss for the period amounted to $19.7 million, 3.7% of turnover, compared to profit of $14.8 million, 3.0% of turnover in the corresponding quarter last year.

Key factors that influenced the business results in the six-month period ending June 30, 2011 compared to the same period last year are:

	Jan - June 0 in thousands US dollars	Jan - June 0 % of operating revenues	Jan - June 2010 in thousands US dollars	Jan - June 2010 % of operating revenues	change in thousands US dollars	change %
Operating revenues	955,673	100%	*925,562	100%	30,111	3%
Operating expenses	(873,556)	(91.4%)	(764,528)	(82.6%)	(109,028)	14%
Gross profit	82,117	8.6%	161,034	17.4%	(78,917)	(49%)
Selling expenses	(100,874)	(10.6%)	*(101,503)	(11.0%)	629	(1%)
General and administrative expenses	(49,264)	(5.2%)	(46,621)	(5.0%)	(2,643)	6%
Other operating expenses, net	(8,655)	(0.9%)	(2,622)	(0.3%)	(6,033)	230%
Operating profit (loss) before financing	(76,676)	(8.0%)	10,288	1.1%	(86,964)	
Financing expenses	(10,608)	(1.1%)	(16,372)	(1.8%)	5,764	(35%)
Financing income	12,345	1.3%	3,992	0.4%	8,353	209%
Company's share in earnings of affiliates, net	880	0.1%	0	0.0%	880	
Loss before income taxes	(74,059)	(7.7%)	(2,092)	(0.2%)	(71,967)	3440%
Tax benefit	11,415	1.2%	402	0.0%	11,013	2740%
Loss for the year	**(62,644)**	(6.6%)	**(1,690)**	(0.2%)	(60,954)	3607%

* Restated - see Note 5 to the Financial Statements.

Operating revenues – operating revenues in the first six months of 2011 increased by 3.3% compared to the corresponding period last year. Passenger revenues increased mainly as a result of the increase in yield per passenger kilometer. Cargo shipping revenues increased, mainly as a result of the increase in cargo traffic and the increase in yield per ton kilometer.

Operating expenses – the first half of 2011 saw a 14.3 % 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 and the revaluation of the rate of the NIS relative to the USD.

The **gross profit rate** decreased from 17.4% of turnover in the first half of 2010 to 8.6% in the reported period.

• Salary expenses in the first half of 2011 increased relative to the same period last year. Most of the increase derived from the revaluation of the NIS relative to the USD, from the increase in activity and from the application of the salary agreement. 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 2010, while the Company's effective price after hedging activity increased by 14.2%. In the reported quarter the Company received refunds from jet fuel hedging to the amount of $36.4 million, which were charged to gain/loss. The change in the fair value of transactions assigned to the Statement of Operations increased jet fuel expenses by $10.7 million (in the first half of 2010 jet fuel expenses due to hedging agreements increased by $38.4 million and decreased as a result of changes in fair value to the amount of $0.4 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 did not undergo any material changes relative to the corresponding period last year. Total selling expenses amounted to 10.6% of turnover compared to 11.0% in the corresponding period last year.

General and administrative expenses – general and administrative expenses increased relative to the first six months of 2010, primarily due to the increase in salary expenses. Their share of the Company's turnover increased from 5.0% in the first half of 2010 to 5.2% in the reported half.

Other expenses, net – in the first half of 2011 the Company listed other net expenses to the amount of $8.7 million, mainly as a result of an additional provision for a civil cargo suit in the U.S. (see Note 10d to the Financial Statements) as well as from an update to liabilities due to early retirement plans based on CPI increase rates. The Company listed other expenses to the amount of $2.6 million in the first half of 2010.

Operational loss for the first six months of 2011 amounted to $76.7 million, 8.0% of turnover, compared to an operational profit in the comparable period last year of $10.3 million, 1.1% of turnover.

Financing – the Company listed net financing incomes of $1.7 million in the first half of 2011, compared to net financing expenses of $12.4 million in the corresponding half last year. Most of the change derives from a drop in Libor interest rates and from receipts due to NIS exchange rate hedging.

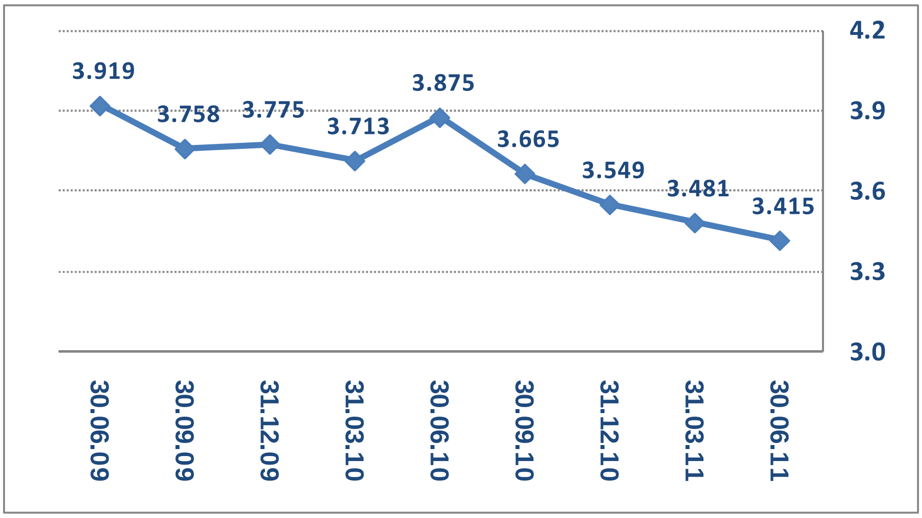
Pre-tax loss for the first half of 2011 amounted to $74.1 million compared to a pre-tax loss of $2.1 million in the corresponding quarter last year.

Loss for the period amounted to $62.6 million, 6.6% of turnover, compared to a loss of $1.7 million, 0.2% of turnover in the corresponding period last year.

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

In the three-month period ending June 30 2011 the exchange rate of the shekel increased vs. the dollar by 1.9%, compared to a 4.4% decrease in the exchange rate of the shekel vs. the dollar in the same quarter last year.

US Dollar - NIS Exchange Rate:



The Company has net obligations to its employees for severance pay, retirement plans, sick pay, and vacation pay as of June 30 2011 to the amount of $84 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 against the dollar. Exchange rate changes are not one-directional, and cause the listing of revenues or expenses in the Company's Financial Statements. These revenues or expenses do not impact the Company's cash flow or operating costs in the short run. In order to enable a comparison of the Company's business results for the long run, these revenues or expenses should be neutralized.

The quarter ending June 30 2011 saw expenses for this element to the amount of $1.3 million, compared to the same period last year, in which the expenses for this element decreased by $2.7 million.

The first half of 2011 saw a the expenses for this element to the amount of $2.5 million, compared to the same period last year, in which the expenses for this element decreased by $1.7 million.

a.5 Segment Reporting

Presented below are 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 determining the results of the reported operating segments, a number of components not part of the direct costs involved in operating the flights, such as depreciation as a result of aviation equipment, fixed maintenance costs and fixed costs at overseas offices are also included.

b. Analysis of income and results by operating segments:

For Three-month period ended :					
30.06.2011	passenger aircraft	cargo aircraft	others	Adjustment	Total consolidated
	in thousands US dollars				
operating revenues					
revenue from external customers	479,057	23,589	10,560	17,293	530,499
inter-segment revenues	-	-	14,610	(14,610)	-
Total segment revenues	**479,057**	**23,589**	**25,170**	**2,683**	**530,499**
segment results	38,971	(1,196)	6,580		44,355
Unassigned expenses					(67,526)
Operating loss before financing					**(23,171)**
Financing expenses					(7,502)
Financing income					8,016
The Company's share of the profits of subsidiaries, net of tax					145
Loss before income taxes					**(22,512)**
Tax benefit					2,804
Loss for the period					**(19,708)**

For Three-month period ended :					
30.06.2010	passenger aircraft	cargo aircraft	others	Adjustment	Total consolidated
	in thousands US dollars				
operating revenues					
revenue from external customers	455,008	21,455	9,054	16,855	502,372
inter-segment revenues	-	-	16,663	(16,663)	-
Total segment revenues	**455,008**	**21,455**	**25,717**	**192**	**502,372**
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
The Company's share of the profits of subsidiaries, net of tax					-
Profit before income taxes					**19,744**
Tax expense					(4,902)
Profit for the period					**14,842**

The increase in revenues from passenger planes in the reported quarter relative to the same quarter last year derives mainly form an increase in the number of passengers and an increase in yield per passenger-kilometer and ton-kilometer. At the same time, the increase in receipts and in particular in jet fuel prices and in salary expenses and in the revaluation of the rate of the NIS and the euro relative to the dollar, reduced the profitability of the passenger plane segment from 13.6% in the second quarter of 2010 to 8.1% in the reported quarter. Cargo transport revenues also increased, despite the drop in the amount of cargo transported, as a result of the increase in yield per ton-kilometer. The increase in production inputs as noted above led to a move from 0.4% profits in the second quarter of 2010 to a loss of 5.1% in the reported quarter. The decrease in the profitability of the passenger plane and cargo plane segments in the reported quarter relative to the corresponding quarter last year and the increase in expenses not attributed directly to operating segments, led to a move from operational profits of $25.0 million for the Company as a whole in the second quarter of 2010 to an operational loss of $23.2 million in the reported period.

For Six-month period ended :					
30.06.2011	passenger aircraft	cargo aircraft	others	Adjustment	Total consolidated
	in thousands US dollars				
operating revenues					
revenue from external customers	845,063	54,354	22,466	33,790	955,673
inter-segment revenues	-	-	30,073	(30,073)	-
Total segment revenues	**845,063**	**54,354**	**52,539**	**3,717**	**955,673**
segment results	36,734	(297)	14,919		51,356
Unassigned expenses					(128,032)
Operating loss before financing					**(76,676)**
Financing expenses					(10,608)
Financing income					12,345
The Company's share of the profits of subsidiaries, net of tax					880
Loss before income taxes					**(74,059)**
Tax benefit					11,415
Loss for the period					**(62,644)**

For Six-month period ended :					
30.06.2010	passenger aircraft	cargo aircraft	others	Adjustment	Total consolidated
	in thousands US dollars				
operating revenues					
revenue from external customers	832,704	39,499	20,494	32,865	925,562
inter-segment revenues	-	-	33,230	(33,230)	-
Total segment revenues	**832,704**	**39,499**	**53,724**	**(365)**	**925,562**
segment results	94,016	(868)	14,513		107,661
Unassigned expenses					(97,373)
Operating profit before financing					**10,288**
Financing expenses					(16,372)
Financing income					3,992
The Company's share of the profits of subsidiaries, net of tax					-
Loss before income taxes					**(2,092)**
Tax benefit					402
Loss for the period					**(1,690)**

Revenues in the six-month period ending June 30 2011 in the passenger plane segment increased relative to the corresponding period last year despite the drop in the number of passengers transported by the Company, mainly as a result of an increase in revenues per passenger-kilometer and from an increase in tons of cargo shipped inside the holds of passenger planes and from an increase in the yield per ton-kilometer of cargo. The increase in costs, in particular in jet fuel prices and in salary expenses and in the revaluation of the rate of the NIS and the euro relative to the dollar, reduced the profitability of the passenger plane segment from 11.3% in the first half of 2010 to 4.3% in the first half of 2011. The cargo plane segment saw an increase in revenues in the first half of 2011 due to the increase in the amount of cargo shipped and an increase in yield per ton-kilometer. In this period, the segment listed a 0.5% loss compared to a 2.2% loss in the first half of 2010. The decrease in the profitability of the passenger plane segment in and the increase in expenses not attributed directly to operating segments, led to a move from operational profits of $10.3 million for the Company as a whole in the first half of 2010 to an operational loss of $76.7 million in the first half of 2011.

For year ended:					
31.12.2010	passenger aircraft	cargo aircraft	others	Adjustment	Total consolidated
	in thousands US dollars				
operating revenues					
revenue from external customers	1,765,282	87,508	38,790	80,659	1,972,239
inter-segment revenues	-	-	78,573	(78,573)	-
Total segment revenues	**1,765,282**	**87,508**	**117,363**	**2,086**	**1,972,239**
segment results	251,825	(264)	28,573		280,134
Unassigned expenses					(192,091)
Operating profit before financing					**88,043**
Financing expenses					(35,911)
Financing income					10,849
The Company's share of the profits of subsidiaries, net of tax					45
Profit before income taxes					**63,026**
Income taxes					(5,971)
Profit for the year					**57,055**

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. In this regard, note that the number of Israeli departures and tourist arrivals in the reported quarter was influenced by the fact that the Passover holidays fell in April this year (Q2), while last year it fell in March (Q1).

a.7 Liquidity and Financing Sources

Movement in cash flow for the three month period ending June 30 2011 compared to the same period last year is:

	April - June 2011 in thousands US dollars	April - June 2010 in thousands US dollars	change in thousands US dollars
Cash flows from operating activities	20,214	82,851	(62,637)
Cash flows used for investing activities	(44,911)	(7,548)	(37,363)
Cash flows (used for) from financing activities	1,407	(43,301)	44,708
Net increase (decrease) in cash and cash equivalents	(23,290)	32,002	(55,292)

Operating Activities

The Group received a cash flow from current activity to the amount of $20.2 million in the quarter ending June 30 2011 compared to a cash flow from current activity to the amount of $82.9 million in the same quarter last year. The worsening in the current cash flow relative to the same quarter last year derives mainly from the loss for the period as well as from changes in asset and liability items.

Investment Activities

The Company invested $44.9 million in investment activity in the second quarter of 2011. Investment in fixed and intangible assets amounted to a total of $25.0 million (mainly the purchase of a 747-400 plane, spare engine and parts and accessories). In addition, a $20.2 million increase occurred in short-term deposits.

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.

Financing Activities

In the second quarter of 2011 the Company saw $1.4 million from financing activity. The Company received loans to the amount of $18.3 while repaying loans to the amount of $18.4 million.

In the second quarter of 2010 the Company used $43.3 million for financing activity, mainly for the redemption of long-term loans.

In total, the reported quarter saw a $23.3 million decrease in the balance of cash and cash equivalents, which amounted to $150.2 million as of June 30 2011. On the other hand, the reported quarter saw a $20.2 million increase in short-term deposits.

Movements in cash flow for the six-month period ending June 30, 2011 compared to the same period last year are:

	Jan - June 2011 in thousands US dollars	Jan - June 2010 in thousands US dollars	change in thousands US dollars
Cash flows from operating activities	76,880	136,726	(59,846)
Cash flows used for investing activities	(27,469)	(13,172)	(14,297)
Cash flows used for financing activities	(10,196)	(54,474)	44,278
Net increase in cash and cash equivalents	39,215	69,080	(29,865)

Operating Activities

The Group received cash flows from operating activity to the amount of $76.9 million in the six months ending June 30 2011 compared to cash flows from operating activity to the amount of $136.7 million in the same period last year. The change derives mainly from the loss in the first half of 2011 compared to the profit listed by the Company in the corresponding period last year.

Investment Activities

In the first half of 2011, the Company made investments at a net sum of $27.5 million. Investment in fixed and intangible assets amounted to a total of $62.6 million (mainly the purchase of a 747-400 plane, spare engine and parts and accessories). On the other hand, the Company received $34.5 million from the realization of short-term deposits.

In the first half of 2010, the Company used $13.2 million for investment activity, mainly in the purchase of fixed and intangible assets to the amount of $21.3 million, offset by the proceeds from the realization of restricted deposits to the amount of $5.5 million and proceeds from the sale of fixed assets to the amount of $2.4 million.

Financing Activities

In the first half of 2011 the Company used $10.2 million for financing activity, mainly for the redemption of long-term loans to the amount of $30.9 million, while on the other hand, the Company received loans to the amount of $18.3 million in the reported half.

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 this half.

In total the balance of cash and cash equivalents increased by $39.2 million as of June 30 2011, amounting to a total of $150.2 million, compared to $111.0 million as of December 31 2010, while short term deposits decreased by $34.5 million relative to December 31 2010, amounting to a total of $29.0 million as of June 30 2011.

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 change of $0.01 US in the price of a gallon of jet fuel during an entire year impacts the Company's fuel expenses by $2.5 million. The Company has taken hedging measures to reduce the exposure, as detailed in b.1.(3) below.

Changes in jet fuel may influence the scope of securities the Company may be required to deposit with jet fuel hedgers. The Company is taking steps to hedge this exposure.

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 million. The Company has adopted hedging measures to reduce the exposure, as provided 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 present levels of activity, each 1% in appreciation of the exchange rate of the shekel relative to the dollar for an entire year increases the Company's annual expenses by $4.7 million. Likewise, a surplus of payments over receipts exists 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 the changes that occur in the market value of planes around the world, due to exceptional security events, and to the excess supply of seats on airlines around the world. For further details, see Note 16.g. and note 22.g.1. to the December 31 2010 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 Market Risk Management Committee headed by Mr. Nadav Palti, which is responsible for determining the coverage policies for existing exposures. 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 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 in 2010 was: hedging jet fuel quantities for up to 24 months forward, so that for every period, a minimum and maximum rate was set for hedging out of total expected consumption, in a gradual and decreasing manner. Therefore, the maximum hedging rate at the beginning of the period was 80% and the minimum hedging rate at the end of the period was 20%.

Starting 2011, the jet fuel hedging policy was altered as follows: hedging jet fuel quantities for up to 24 months forward, so that for every period, a minimum and maximum hedging rate would be set out of total expected consumption, in a gradual and decreasing manner. Hedging agreements shall be carried out on a monthly basis. The maximum hedging rate at the beginning of the period is 75% and the minimum hedging rate for the 12th month is 5%. Instruments and hedging levels shall be selected so that the Company limits its maximum exposure to cash securities. As of this report, the Company is hedged according to its policy.

The Company's policy with respect to interest hedging is to hedge half of the credit portfolio for a period of up to 5 years. As of this report, the Company is hedged in accordance with its policy.

The Company's policy with respect to NIS/USD exchange rates in 2010 was to hedge up to half of its shekel exposure for up to one year forward. Starting 2011 the NIS/USD exchange rate hedging policy was changed to hedge up to 75% of its cash flow exposure for a 1-year outlook as decided by management. As of this report, the Company is hedged in accordance with its policy.

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 subsequent to 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 2011, the Company entered into several agreements for the purpose of hedging jet fuel prices, at a scope estimated at 64% of expected consumption for July-December 2011 and 4% of expected consumption in 2012. Some of these transactions are recognized as hedging agreements for accounting purposes and some are not. The fair value of all jet fuel hedging instruments as of June 30 2011 is $13.3 million, presented in the Financial Statements as part of current assets under "Derivative Financial Instruments". In the reported quarter, the Company received refunds to the amount of $20.9 million for these hedging agreements. For details regarding the jet fuel instrument swap carried out by the Company in March 2011, see Note 8b to the Financial Statements. For details regarding changes in jet fuel prices subsequent to the balance sheet date, see Section e(b) of the Board of Directors Report below.

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.

As of June 30 2011 these transactions are not recognized as hedging agreements for accounting purposes. The fair value of these agreements as of June 30 2011 is a negative sum of $16.8 million, which is presented in the Financial Statements in the framework of current and non-current liabilities under "Derivative Financial Instruments".

After executing these hedges, as of June 30 2011, 39.0% of the balance of the Company's loans is at fixed interest for a sixteen month horizon. In addition, as of June 30 2011 the Company has a balance of loans to the amount of $94.4 million at fixed interest for a period of 10 years constituting 13.6% of all of the Company's loans, so that as of the date of the report, 52.6% of the Company's loans are fixed-interest.

The Company paid a total of $2.4 million for these hedging agreements in the reported quarter.

For information on changes in interest rates occurring subsequent to the balance sheet date, see Section e.(c) 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 2010 the Company entered into a number of financial transactions intended to protect the Company from drops in the exchange rate of the USD vs. the NIS for a 13-month period starting December 2010 and ending December 2011. These transactions are recognized as hedges for accounting purposes. In February 2011, the Company entered into additional financial transactions for a period of 13 months ending February 2012.

The fair value of these instruments as of June 30 2011 is $14.2 million, presented in the Financial Statements as part of current assets under "Derivative Financial Instruments".

In the reported quarter the Company received refunds for exchange rate hedging agreements to the amount of $7.3 million.

For details on other hedging agreements and on changes in the NIS/USD exchange rate occurring subsequent to the balance sheet date, see e.(d) below.

b.1.(6) Sensitivity Analysis Reporting

The following is an analysis of the sensitivity of the fair value of the financial instruments sensitive to changes possible 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 2011.

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

a) <u>Sensitivity to changes in shekel/dollar exchange rate – thousands of dollars:</u>

	Gain (loss) from changes			Gain (loss) from changes	
	Increase 10% 3.757 NIS/$	Increase 5% 3.586 NIS/$	Fair value 3.415 NIS/$	Decrease 5% 3.244 NIS/$	Decrease 10% 3.074 NIS/$
Cash and cash equivalents	(714)	(374)	7,859	414	873
Short-term deposits	(820)	(429)	9,015	474	1,002
Trade receivables	(475)	(249)	5,222	275	580
Other accounts receivables	(1,033)	(541)	11,359	598	1,262
Derivative financial instruments	(1,294)	(678)	14,231	749	1,581
Long-term bank deposits	(161)	(85)	1,775	93	197
Total financial Assets	(4,496)	(2,355)	49,461	2,603	5,496
Trade payables	3,283	1,720	(36,112)	(1,901)	(4,012)
Other payables - Current	248	130	(2,731)	(144)	(303)
Other payables - Non-current	403	211	(4,437)	(234)	(493)
Total financial liabilities	3,935	2,061	(43,280)	(2,278)	(4,809)
Exposure in linkage balance sheet due to surplus of financial liabilities over financial assets	(563)	(294)	6,181	326	687

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

	Gain (loss) from changes			Gain (loss) from changes	
	Increase 10% 0.758 Euro/$	Increase 5% 0.724 Euro/$	Fair value 0.689 Euro/$	Decrease 5% 0.655 Euro/$	Decrease 10% 0.620 Euro/$
Cash and cash equivalents	(763)	(400)	8,392	442	932
Trade receivables	(1,895)	(993)	20,843	1,097	2,316
Other accounts receivables	(199)	(104)	2,189	115	243
Total financial Assets	(2,857)	(1,496)	31,424	1,654	3,492
Trade payables	2,030	1,063	(22,331)	(1,175)	(2,481)
Other payables	401	210	(4,412)	(232)	(490)
Total financial liabilities	2,431	1,273	(26,743)	(1,408)	(2,971)
sheet due to surplus of financial liabilities over financial assets	(426)	(223)	4,681	246	520

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% 3.517 $/gallon	Increase 5% 3.357 $/gallon	Fair value 3.197 * $/gallon	Decrease 5% 3.037 $/gallon	Decrease 10% 2.877 $/gallon
Jet fuel Inventorie	2,516	1,258	25,156	(1,258)	(2,516)

* The price of jet fuel according to a moving weighted average for the period ending June 30 2011.

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% 2.572, 2.620 $/gallon	Increase 10% 2.723, 2.774 $/gallon	Increase 5% 2.875, 2.928 $/gallon	3.026, 3.082 $/gallon	Decrease 5% 3.021, 3.090 $/gallon	Decrease 10% 2.862, 2.928 $/gallon	Decrease 15% 2.703, 2.765 $/gallon
SWAP transactions - designed for hedging	11,018	7,345	3,673	11,133	(3,673)	(7,345)	(11,018)
Options - not designed for hedging	6,832	3,711	1,453	2,213	(888)	(1,409)	(1,663)
Total transactions - jet fuel hedge	17,850	11,056	5,126	13,346	(4,561)	(8,754)	(12,681)

* The price of jet fuel in the Mediterranean Basin ($3.026/gallon) and Northwest Europe ($3.082/gallon) as of June 30 2011, according to which the fair value of the Company's jet fuel hedging transactions is calculated.

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 led to 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 - not designed for hedging	901	127	69	(16,767)	(59)	(126)	(923)

* Fair value was calculated according to the market Libor rate as of the balance sheet date, at the following rates: 3-month Libor: 0.25%, 6-month Libor: 0.40%, and 12-month Libor 0.73%, 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/$ * 3.415	Gain from changes	
	Increase 10% in exchange rate 3.757	Increase 5% in exchange rate 3.586		Decrease 5% in exchange rate 3.244	Decrease 10% in exchange rate 3.074
FORWARD transactions - designed for hedging	(15,487)	(7,745)	14,231	7,741	15,487

* 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 3.415 NIS per USD on June 30, 2011.

b2. Linkage Basis Report

The following is the consolidated linkage basis report for June 30, 2011:

	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	121,916	7,859	8,392	12,050	-	150,217
Short-term deposits	20,001	9,015	-	-	-	29,016
Trade receivables	137,890	5,222	20,843	15,042	-	178,997
Other accounts receivables	11,616	11,359	2,189	1,711	-	26,875
Derivative financial instruments	13,346	14,231	-	-	-	27,577
Prepaid expenses	-	-	-	-	35,968	35,968
Inventories	-	-	-	-	34,750	34,750
Non-current assets						
Long-term bank deposits	-	1,775	-	-	-	1,775
Investment in affiliated companies	-	-	-	-	14,354	14,354
Investment in other companies	1,234	-	-	-	-	1,234
Fixed assets, net	-	-	-	-	1,225,688	1,225,688
Intangible assets, net	-	-	-	-	8,048	8,048
Prepaid expenses	-	-	-	-	6,211	6,211
Assets due to employee benefits	143	40,565	-	-	-	40,708
	306,146	**90,026**	**31,424**	**28,803**	**1,325,019**	**1,781,418**
Current liabilities						
Borrowings and current maturities	(155,714)	(125)	(24)	-	-	(155,863)
Trade payables	(108,814)	(36,112)	(22,331)	(13,284)	-	(180,541)
Other payables	(57,857)	(2,731)	(4,412)	(6,729)	-	(71,729)
Provisions	(14,517)	(18,307)	-	-	-	(32,824)
Derivative financial instruments	(5,157)	-	-	-	-	(5,157)
Employee benefit obligations	(4,051)	(105,980)	(920)	(889)	-	(111,840)
Unearned revenues	0	0	0	0	(326,983)	(326,983)
Non-current liabilities						
Loans from financial institutions	(543,636)	-	-	-	-	(543,636)
Employee benefit obligations	(7,316)	(53,740)	(698)	(4,819)	-	(66,573)
Derivative financial instruments	(11,610)	0	-	-	-	(11,610)
Other payables	(3,178)	(4,437)	-	-	-	(7,615)
Deferred taxes	-	-	-	-	(23,409)	(23,409)
Unearned revenues	-	-	-	-	(50,257)	(50,257)
Shareholders' equity	-	-	-	-	(193,381)	(193,381)
	(911,850)	**(221,432)**	**(28,385)**	**(25,721)**	**(594,030)**	**(1,781,418)**
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	**(605,704)**	**(131,406)**	**3,039**	**3,082**	**730,989**	**-**

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 accounts receivables	4,929	8,493	1,165	2,151	-	16,738
Derivative financial instruments	4,171	608	-	-	-	4,779
Prepaid expenses	-	-	-	-	28,300	28,300
Inventories	-	-	-	-	13,104	13,104
Non-current assets						
Long-term bank deposits	-	1,725	-	-	-	1,725
Investment in affiliated companies	-	-	-	-	648	648
Investment in other companies	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
Prepaid expenses	-	-	-	-	8,288	8,288
Assets due to employee benefits	118	33,235	-	-	-	33,353
	312,245	**56,315**	**31,791**	**25,500**	**1,324,452**	**1,750,303**
Current liabilities						
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)
Derivative financial instruments	(18,329)	-	-	-	-	(18,329)
Other payables	(6,150)	(4,437)	-	-	-	(10,587)
Deferred taxes	-	-	-	-	(10,215)	(10,215)
Unearned revenues	-	-	-	-	(57,735)	(57,735)
Shareholders' equity	-	-	-	-	(139,051)	(139,051)
	(977,507)	**(229,294)**	**(23,094)**	**(23,099)**	**(497,309)**	**(1,750,303)**
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	**(665,262)**	**(172,979)**	**8,697**	**2,401**	**827,143**	**-**

The following is the consolidated linkage basis report for December 31, 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	81,807	13,260	4,667	11,268	-	111,002
Short-term deposits	55,000	8,565	-	-	-	63,565
Trade receivables	104,504	1,114	14,879	12,463	-	132,960
Other receivables	10,551	8,717	514	1,098	-	20,880
Derivative financial instruments	30,020	12,170	-	-	-	42,190
Prepaid expenses	-	-	-	-	26,995	26,995
Inventory	-	-	-	-	18,756	18,756
Non-current assets						
Long-term bank deposits	-	1,869	-	-	-	1,869
Investment in affiliated companies	-	-	-	-	693	693
Investments in other companies	1,228	10,324	-	-	-	11,552
Derivative financial instruments	4,291	-	-	-	-	4,291
Fixed assets, net	-	-	-	-	1,231,687	1,231,687
Intangible assets, net	-	-	-	-	7,844	7,844
Prepaid expenses	-	-	-	-	8,121	8,121
Assets due to employee benefits	143	38,656	-	-	-	38,799
	287,544	**94,675**	**20,060**	**24,829**	**1,294,096**	**1,721,204**
Current liabilities						
Borrowings and current maturities	(146,826)	(761)	-	-	-	(147,587)
Trade payables	(88,098)	(32,680)	(25,194)	(11,940)	-	(157,912)
Other payables	(40,717)	(1,814)	(3,555)	(3,539)	-	(49,625)
Provisions	(9,192)	(35,747)	-	-	-	(44,939)
Derivative financial instruments	(2,329)	-	-	-	-	(2,329)
Employee benefit obligations	(3,690)	(93,536)	(767)	(719)	-	(98,712)
Unearned revenues	-	-	-	-	(231,204)	(231,204)
Non-current liabilities						
Loans from financial institutions	(561,084)	-	-	-	-	(561,084)
Employee benefit obligations	(7,813)	(52,092)	(675)	(5,010)	-	(65,590)
Derivative financial instruments	(19,739)	-	-	-	-	(19,739)
Other payables	(6,263)	(4,437)	-	-	-	(10,700)
Deferred tax	-	-	-	-	(32,792)	(32,792)
Unearned revenues	-	-	-	-	(51,467)	(51,467)
Shareholders' equity	-	-	-	-	(247,524)	(247,524)
	(885,751)	**(221,067)**	**(30,191)**	**(21,208)**	**(562,987)**	**(1,721,204)**
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	**(598,207)**	**(126,392)**	**(10,131)**	**3,621**	**731,109**	**-**

c. Aspects of Corporate Governance

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

The body charged with ultimate control in the Company regarding the approval of the Financial Statements is its Board of Directors. Starting from the approval of the 2010 yearly Financial Statements, the financial statement approval process is covered by directives set in the Companies Regulations (Directives and Conditions for the Financial Statement Approval Process), 2010 ("the Regulations").

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 and the Government Affairs and Regulations Committee. In addition, the Company also has a Finance, Budget and Balance Sheet Committee (which serves as a Financial Statements examination committee) which according to the Regulations discusses the Yearly and Quarterly Financial Statements prior to bringing them before the Board of Directors for approval and recommends to the Board of Directors whether to approve the Company's Financial Statements.

The following five members serve on the Financial Statements Examination Committee:

1) Mr. Yair Rabinowitz, Chair of the Committee, external director. Possessing accounting and financial qualifications, holding an accounting certificate from the Hebrew University in Jerusalem. Owns a tax consulting firm and is fluent in accounting issues and financial statement preparation. Mr. Rabinowitz provided a statement (as defined in the regulations) prior to his appointment.

2) Professor Yehoshua Shemer, external director. Possessing accounting and financial qualifications, with a degree in internal medicine and an expert in medical administration on behalf of the Ministry of Health. Professor Shemer serves as the Chairman of the Board of Directors of Assuta Medical Centers and formerly served as General Manager of Maccabi Health Services. Professor Shemer has extensive business experience, mainly in managing major corporations and is capable of and experienced in reading financial statements. Professor Shemer provided a statement (as defined in the regulations) prior to his appointment.

3) Mr. Nadav Palti, director. Possessing accounting and financial qualifications, economics and accounting graduate from Tel Aviv University and CPA. Serves as President and CEO of Dory Media Group and serves on the boards of many additional corporations. Mr. Palti has extensive experience in understanding financial statements and provided a statement (as defined in the Regulations) prior to his appointment.

4) Mr. Pinchas Ginsburg, director, possessing accounting and financial qualifications, economics and accounting graduate from Tel Aviv University. Serves as CEO of Hillel & Co. travel agency. Mr. Ginsburg is qualified and has extensive experience in understanding financial statements and has provided a statement (as defined in the Regulations) prior to his appointment.

5) Mr. Amnon Lipkin-Shahak, director, with professional qualifications. General History graduate from the Tel Aviv University and director at Kardan. Mr. Lipkin-Shahak has provided a statement (as defined in the regulations) prior to his appointment.

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 Financial Statement Examination Committee studies the material issues in financial reporting and formulates a recommendation for the Company's Board of Directors pertaining to, among other things, the following issues: (1) estimates and evaluations made pursuant to the Financial Statements; (b) internal controls pertaining to financial reporting; (c) the wholeness and propriety of disclosure in the Financial Statements; (d) the accounting policy adopted and the accounting treatment applied to material Group issues; (e) value estimates, including underlying assumptions and estimates, on which the data in the Financial Statements was based. The Committee also reviews different aspects of control and risk management, both those reflected in the Financial Statements and those impacting the reliability of the Financial Statements.

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

The Company's Board of Directors is the organ that discusses and approves the Financial Statements, after the members of the Board receive the draft Financial Statements and the recommendations of the Financial Statements Examination Committee at least two business days prior to the meeting.

Over the course of the Board meeting in which the Financial Statements are discussed and ratified, the Company CFO provides a detailed review of the key points of the Financial Statements and the Company's accounting policy. The CEO also reviews the Company's current activity and the influence of this activity on the Company's Financial Statements and emphasizes material issues. In addition, the Chair of the Financial Statement Examination Committee reviews the key points of the Committee's recommendations.

Invited and present at the Board meeting in which the Financial Statements are discussed and ratified are representatives of the Company's independent auditor, who provide remarks and clarifications to the Financial Statements and who are the Board members' disposal to answer questions and provide clarifications regarding the reports prior to their approval.

The Financial Statements Examination Committee convened on August 11, 2011 to formulate recommendations for the Board of Directors. Taking part in the meetings in question were the members of the Committee: Yair Rabinowitz, Professor Shuki Shemer and Mr. Pinchas Ginsburg. Also participating in the meeting were the Chairman of the Board of Directors, Mr. Amikam Cohen, Company CEO Mr. Eliezer Shekedi, CFO Mr. Nissim Malki, VP of Human Resources and Administration Mr. Reuven Virovnik, VP of Trade and Aviation Relations, Mr. David Meimon, Legal Counsel and Company Secretary, Mr. Omer Shalev, Esq., as well as the representatives of the auditing accountant.

The Financial Statements Examination Committee held 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 review of the Financial Statements.

The following are details of the steps taken prior to the approval of the June 30, 2011 Financial Statements:

a. The draft Financial Statements were provided to the members of the Board of Directors to study on August 9, 2011.
b. Committee members are welcome to contact the Company CFO at any time with any question or clarification they require, prior to the meeting.
c. Over the course of the meeting, the Committee reviewed the Company's financial results and viewed comparisons between the reported period and corresponding periods and the work plan, presented by the CFO.
d. Pursuant to its meeting the Committee studied the estimates and assessments carried out in relation to the Financial Statements for the reported quarter, the wholeness and propriety of disclosure in the Financial Statements for the reported quarter, the accounting policy adopted and accounting treatment implemented regarding the Company's material issues.
e. The Committee discussed the effectiveness of internal controls over financial reporting and disclosure in the Company and examined, among other things, the manner of treatment of the material weakness reported by the Company in its 2010 Financial Statements. The Committee was presented with a review by Company management regarding actions taken by the Company to correct the material weakness including the receipt of payment to the amount of 4,750,000 NIS for the bonus for the outgoing CEO as well as ratification of bonuses to executives for 2005 (for details see Chapter D of the June 30, 2011 Financial Statements). Furthermore, the Committee was informed that as of the date of the report's approval, no event or issue has occurred to change the evaluation of the effectiveness of internal controls, as presented pursuant to the latest yearly report. In addition, also presented to the Committee were the actions taken by the Company to ensure that despite the material weakness, its reports had been prepared properly.
f. At the conclusion of the discussion and after it has been clarified that the Financial Statements adequately reflect the state of Company affairs and its operating results, the Committee recommended that the Board of Directors approve the Financial Statements.
g. The Committee's recommendations were provided to the members of the Board of Directors on August 11, 2011 in writing along with the draft Financial Statements.
h. On August 16, 2011 a discussion was held by the Company's Board of Directors regarding the recommendations of the Financial Statements Examination Committee. At the conclusion of the Board meeting, the June 30, 2011 Financial Statements, prepared on the basis of IFRS rules, were approved unanimously. Present at the Board of Directors Meeting in which the Financial Statements were approved, were the following Board members: Amikam Cohen, Tamar Moses-Borowitz, Nadav Palti, Eran Ilan, Yair Rabinowitz, Professor Shuki Shemer, Shlomo Hannael, Pinchas Ginsburg and Sofia Kimmerling. The recommendations of the Financial Statements Examination Committee were provided the Board of Directors four business days prior to the discussion on the Financial Statements by the Company's Board of Directors.

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

d.1 Events Subsequent to the Balance Sheet Date

Regarding events subsequent to the balance sheet date, see Note 13 to the June 30, 2011 Interim Financial Statements.

d.2 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 matters.

For details on the material estimates included in the Financial Statements see Note 4 to the December 31, 2010 Financial Statements.

d.3 Explanation of the Matter to which the Company's Independent Auditors Draw Attention in their Report on the Financial Statements

The Company's accountants draw attention, in their opinion on the Financial Statements, to Note 1.e to the Interim Financial Statements, regarding Company management's plan to improve its business results and cash flows.

The matter to which the independent auditors drew attention does not constitute a change in the uniform wording of the auditors' report.

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. According to a new profit projection published by IATA in June 2011, a 54% drop is expected in airline profits relative to IATA's previous projection from March 2011 as a result of the high fuel prices, natural disasters, and political instability in the Middle East and North Africa.

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, 2011 Financial Statements:

b) As of the Balance Sheet date (June 30 2011) the price of jet fuel in the Fob Med region was 302.6 cents per gallon, while as of immediately prior to the approval of the report this price was 295.1 cents per gallon, a 2.5% decrease. Note that jet fuel expenses constitute nearly 35% of the Company's turnover, and therefore the price changes may have a material impact on its financial results. The average effective price the Company is expected to pay for jet fuel consumption (after hedging) in July-August 2011 is similar to the average effective price paid in the second quarter. At the same time, the fair value of jet 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. Subsequent to the report date, the Company altered part of the structure of the hedging agreement by moving from hedging via purchase option to hedging via cylinder, this by writing sell options appropriate in terms of scope and duration. Over the course of Q3 2011 the Company is expected to list income of $5.4 million in its books as a result of the realization of hedges performed in March 2011 (see Note 8b to the March 31 2011 Financial Statements).

c) Subsequent to the balance sheet date and until a date immediately prior to the approval of the report for the second quarter of 2011, an 18.0% increase occurred in three-month Libor interest rates.

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 2011 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) Subsequent to the balance sheet date, fluctuations continued in the exchange rate of the NIS vs. the USD. On a date near the approval of the report, the exchange rate of the NIS rose 3.9% relative to the rate on the report date. 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 2011). Subsequent to the balance sheet date the Company carried out additional hedging agreements to hedge the NIS exchange rate relative to the USD for the period of January-June 2012.

Amikam Cohen	**Elyezer Shkedi**
Chairman of the Board	**CEO**

August 16, 2011

Appendix to the Report of the Board of Directors on the State of the Corporation's Affairs for the Period Ending

June 30 2011

Minimal Disclosure Required for Value Estimates and in their Regard, and Rules Pertaining to their Addition to Reports as per Securities Authority Guidelines in Accordance with Section 8b of the Securities Regulations (Periodic and Immediate Reports), 1970.

Assessment of the Total Value of the 777-200 747-400 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. (hereinafter "El Al" or "The Company") in order to determine whether the depreciation 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 8b of the Securities Regulations (Periodic and Immediate Reports), 1970, regarding minimal required disclosure for value assessments and in their regard and rules regarding their addition to reports.

b. Specification and Identification of Asset Group

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

c. Opinion Validity Date

June 2011. The value estimate was based on financial projections for 2011 and coming years.

d. Value Assessor

The value assessment was performed by El Al 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 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 El Al in its various commitments with banks.

IAS 36 states that a provision for depreciation must be made when the book value of an asset surpasses its recoverable sum. A recoverable amount is calculated as asset's the 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 2011 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 $449 million, compared to the depreciated retained cost in the books of those aircraft as of June 30 2011, which amounts to a total of $507 million.

The selling price of the 747-400 fleet amounts to a total of $176 million, compared to the depreciated retained cost in the books of those aircraft as of June 30 2011, which totals $242 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 - 12 years of activity on average (and sale of the aircraft at net selling price at the end of the 12 year period), for the 747-400 fleet - 7 years of activity on average (and sale of the aircraft at net selling price at the end of the 7 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 $71 million in 2011, and the cash flow from the operation of the 747-400 aircraft fleet will amount to $94 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.
- Scrap value at the end of useful life (meaning after 12 years for the 777-200 fleet and 7 years for the 747-400 fleet): calculated based on AVAC and Airclaims projections and totaling $180 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 2011.
- 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 2011 projection.
- The current tax rate expected for the Company for the coming 7-12 year period is zero.
- The Company assumes that the aircraft in question shall be used as passenger aircraft for the next 7-12 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):

	2011 Half	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023 Half**	**Total**
Total discounted cash flow	35	65	60	56	52	48	44	41	38	35	33	30	15	**552**
Total discounted Scrap Value (After 12 Years)													72	**72**

Total value of the above assets based on the discounted cash flow method: $624 million.

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 Contribution Yearly	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%
In Millions of Dollars								
55	564	548	532	517	502	488	475	463
60	607	590	573	557	541	527	513	499
65	651	632	614	597	581	565	550	536
71	698	679	660	641	**624**	607	591	576
75	737	716	696	677	659	641	625	609
80	780	758	737	717	698	680	662	645

Fuel price sensitivity analysis, use of the asset across 12 years:

Difference of NPV Vs. Reduced Value	Reduced Value	NPV	Yearly Contribution	Fuel Price (Cent per Gallon)
In Millions of Dollars				
247	507	754	87	259
182	507	689	79	274
117	507	**624**	71	288
52	507	559	62	303
-13	507	494	54	317

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

	2011 Half	2012	2013	2014	2015	2016	2017	2018 Half	Total
Total discounted cash flow	46	87	81	75	69	64	59	28	**509**
Total discounted scrap value (after 7 years)								48	**48**

Total value of the above assets based on the discounted cash flow method: $557 million.

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 Contribution Yearly	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%
In Millions of Dollars								
80	515	506	498	489	481	473	466	458
85	544	534	525	517	508	500	492	484
90	572	563	553	544	535	527	518	510
94	596	586	576	567	**557**	548	540	531
100	630	619	609	599	589	580	571	562
105	659	648	637	627	616	607	597	588

Fuel price sensitivity analysis, use of the asset across 7 years:

Difference of NPV Vs. Reduced Value	Reduced Value	NPV	Yearly Contribution	Fuel Price (Cent per Gallon)
In Millions of Dollars				
413	242	655	112	259
364	242	606	103	274
316	242	**557**	94	288
267	242	509	85	302
218	242	460	76	317

i. Summary

The following table presents the summarized value assessment as of June 30 2011 for the 777-200 fleet:

Recoverable Sum Calculation

Net Selling Price	Value in Use for El Al	Recoverable Sum – Whichever is Higher for El Al
In Millions of Dollars		
449	**624**	**624**

Should Impairment be listed in the Books?

The Aircrafts' Depreciated Retained Cost as of June 30 2011	The Recoverable Amount of the Same Aircraft to El Al, as of June 30 2011	Should Impairment be Listed in the Books?
In Millions of Dollars		
507	624	No

The following table presents the summarized value assessment as of June 30 2011 for the 777-400 fleet:

Recoverable Sum Calculation:

Net Selling Price	Value in Use for El Al	Recoverable Sum – Whichever is Higher for El Al
In Millions of Dollars		
176	557	557

Should Impairment be listed in the Books?

The Aircrafts' Depreciated Retained Cost As of June 30 2011	The Recoverable Sum of the Same Aircraft to El Al, As of June 30 2011	Should Impairment be Listed in the Books?
In Millions of Dollars		
242	557	No

This value assessment is accurate on the date of its preparation and is based upon monetary details for 2011 and on projected income and expenses for the next 7-12 years. Changes in the projected assessments detailed above may alter the value assessment and the Company may subsequently be required to perform devaluation as a result of impairment.

EL AL Israel Airlines Ltd.

Interim Consolidated Financial Statements
As of June 30 2011

(Unaudited)

EL AL Israel Airlines Ltd.

Consolidated Interim Financial Statements (Unaudited)
As of June 30 2011

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Deloitte.
בריטמן אלמגור זהר

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 its concise consolidated balance sheet as of June 30 2011 and its consolidated concise Statement of Operations and reports on Comprehensive Income, Changes in Equity and Cash Flows for the three month and six month periods 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. Our responsibility is to express our opinion on this interim financial information based on our review.

We have not reviewed the concise financial information for the interim period of subsidiaries the assets of which included in consolidation account for 1.1% of total consolidated assets as of June 30, 2011, and whose revenues included in consolidation constitute 1% and 1% of total consolidated revenues for the six and three month periods ending that date, respectively. Furthermore, we were presented with reports from other accountants of an affiliated company the investment in which amounted to $10,773 thousands as of June 30 2011, with the Group's share of their results amounting to $800 thousands and $145 thousands for the six and three month periods ending that date, respectively. The concise interim financial statements of said companies have been audited by other accountants, the reports of whom have been provided us and our conclusion, inasmuch as it refers to amounts consolidated for the aforementioned companies, is based on the reviews conducted by these other accountants.

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. A review is significantly limited in scope relative to an audit conducted according to generally accepted Israeli auditing standards, and therefore does not allow us to achieve assurance that we have been made aware of all material issues that might have been 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 that would lead 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 previous paragraph, based on our review and on those of other accountants, nothing has come to our attention to make us believe that the financial information in question does not comply, in all material aspects, with disclosure regulations as per Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without restricting our above opinion, we direct your attention to Note 1e to the Financial Statements regarding plans by Company Management to improve its business results and cash flows and to the fact that Company Management is of the opinion that the Company is capable of realizing its plans.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, August 16, 2011.

משרד ראשי - תל אביב
מרכז עזריאלי 1
תל אביב, 67021
ת.ד. 16593
תל אביב, 61164
טלפון: 03-6085555
פקס: 03-6094022
info@deloitte.co.il

משרד רמת-גן
הרקון 6
רמת-גן, 52521
טלפון: 03-7551500
פקס: 03-5759955
info-ramatgan@deloitte.co.il

משרד ירושלים
שרי ישראל 12
ירושלים, 94390
טלפון: 02-5018888
פקס: 02-5374173
info-jer@deloitte.co.il

משרד חיפה
מעלה השחרור 5
ת.ד. 5648
חיפה, 31055
טלפון: 04-8607333
פקס: 04-8672528
info-haifa@deloitte.co.il

משרד באר שבע
פארק תעשיות עומר,
בניין 10, ת.ד. 1369
עומר, 84965
טלפון: 08-6909500
פקס: 08-6909600
info-beersheva@deloitte.co.il

משרד אילת
המרכז העירוני
ת.ד. 583
אילת, 88104
טלפון: 08-6375676
פקס: 08-6371628
info-eilat@deloitte.co.il

EL AL Israel Airlines Ltd.

Concise Consolidated Balance Sheet

	As of June 30		As of December 31
	2011	2010	2010
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
	(Unaudited)		
Assets			
Current Assets			
Cash and cash equivalents	150,217	175,767	111,002
Short-term deposits	29,016	7,776	63,565
Restricted deposits	-	1,500	-
Trade receivables	178,997	180,350	132,960
Other receivables	26,875	16,738	20,880
Derivative financial instruments	27,577	4,779	42,190
Prepaid expenses	35,968	* 28,300	26,995
Inventories	34,750	13,104	18,756
Total current assets	483,400	428,314	416,348
Non-Current Assets			
Long-term bank deposits	1,775	1,725	1,869
Investment in affiliated companies	14,354	648	693
Investment in other companies	1,234	1,343	11,552
Derivative financial instruments	-	2,520	4,291
Fixed assets, net	1,225,688	1,267,539	1,231,687
Intangible assets, net	8,048	6,573	7,844
Prepaid expenses	6,211	* 8,288	8,121
Assets due to employee benefits	40,708	33,353	38,799
Total non-current assets	1,298,018	1,321,989	1,304,856
Total assets	1,781,418	1,750,303	1,721,204

(*) Restated - see Note 5

The accompanying Notes constitute 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
	2011	2010	2010
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
	(Unaudited)		
Liabilities and Shareholders' Equity			
Current Liabilities			
Borrowings and current maturities	155,863	95,469	147,587
Trade payables	180,541	152,847	157,912
Other payables	71,729	68,730	49,625
Provisions	32,824	58,272	44,939
Derivative financial instruments	5,157	31,899	2,329
Employee benefit obligations	111,840	92,030	98,712
Unearned revenues	326,983	290,308	231,204
Total current liabilities	884,937	789,555	732,308
Non-Current Liabilities			
Loans from financial institutions	543,636	661,346	561,084
Employee benefit obligations	66,573	63,434	65,590
Loans from others	-	51	-
Derivative financial instruments	11,610	18,329	19,739
Other payables	7,615	10,587	10,700
Deferred taxes	23,409	10,215	32,792
Unearned revenues	50,257	57,735	51,467
Total non-current liabilities	703,100	821,697	741,372
Total liabilities	1,588,037	1,611,252	1,473,680
Shareholders' equity			
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	7,385	6,858	7,198
Capital reserve in respect of cash flow hedging	42,927	(14,306)	35,082
Capital reserve from translation differences of foreign activity	469	-	-
Accumulated loss	(277,541)	(273,642)	(214,897)
Total shareholders' equity	193,381	139,051	247,524
Total liabilities and equity	1,781,418	1,750,303	1,721,204

Amikam Cohen	Elyezer Shkedi	Nissim Malki
Chairman of the Board	**CEO**	**CFO**

Approval date of Financial Statements: Ben Gurion Airport, August 16 2011.

The accompanying Notes constitute 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
	2011	2010	2011	2010	2010
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
	(Unaudited)		(Unaudited)		
Operating revenues	955,673	* 925,562	530,499	* 502,372	1,972,239
Operating expenses	(873,556)	(764,528)	(470,156)	(400,946)	(1,584,557)
Gross profit	82,117	161,034	60,343	101,426	387,682
Selling expenses	(100,874)	* (101,503)	(55,931)	* (52,926)	(214,755)
General and administrative expenses	(49,264)	(46,621)	(24,940)	(22,760)	(96,153)
Other revenues (expenses), net	(8,655)	(2,622)	(2,643)	(737)	11,269
	(158,793)	(150,746)	(83,514)	(76,423)	(299,639)
Profit (loss) from regular activities	(76,676)	10,288	(23,171)	25,003	88,043
Financing expenses	(10,608)	(16,372)	(7,502)	(8,449)	(35,911)
Financing income	12,345	3,992	8,016	3,190	10,849
Financing income (expenses), net	1,737	(12,380)	514	(5,259)	(25,062)
The Company's share of the profits of subsidiaries, net of tax	880	-	145	-	45
Profit (loss) before income taxes	(74,059)	(2,092)	(22,512)	19,744	63,026
Tax benefit (income taxes)	11,415	402	2,804	(4,902)	(5,971)
Profit (loss) for the period	(62,644)	(1,690)	(19,708)	14,842	57,055
Profit (loss) per 1 NIS NV ordinary share (In USD)					
Basic profit (loss) per share	(0.13)	(0)	(0.04)	0.03	0.12
Diluted profit (loss) per share	(0.13)	(0)	(0.04)	0.03	0.11
Weighted average of number of shares (in thousands) used in the calculation of profit (loss) per share					
Basic	495,719	495,719	495,719	495,719	495,719
Diluted	495,719	495,719	495,719	495,898	496,793

(*) Restated - see Note 5

The accompanying Notes constitute 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
	2011	2010	2011	2010	2010
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
	(Unaudited)		(Unaudited)		
Profit (loss) for the period	(62,644)	(1,690)	(19,708)	14,842	57,055
Other comprehensive income (loss)					
Exchange rate differences from the translation of foreign activity, net of tax	469	-	382	-	-
Earnings (loss) in respect of cash flow hedging, net of tax	7,845	16,516	(18,514)	2,423	65,904
Other comprehensive income (loss) for the period, net of tax	8,314	16,516	(18,132)	2,423	65,904
Total comprehensive income (loss) for the period	(54,330)	14,826	(37,840)	17,265	122,959

The accompanying Notes constitute 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 2011							
	Share Capital	**Share Premium**	**Capital Reserve from Trans-actions with a Former Controlling Shareholder**	**Capital Reserve in Respect of Share-Based Payment**	**Capital Reserve in Respect of Cash Flow Hedging**	**Capital Reserve from Translation Differences of Foreign Activity**	**Accumul-ated Loss**	**Total**
	Thousands of Dollars (Unaudited)							
Balance as of January 1 2011	155,012	28,007	237,122	7,198	35,082	-	(214,897)	247,524
Loss for the period	-	-	-	-	-	-	(62,644)	(62,644)
Earnings in respect of cash flow hedging, net of tax	-	-	-	-	7,845	-	-	7,845
Exchange rate differences from the translation of foreign activity, net of tax	-	-	-	-	-	469	-	469
Total loss for the period	-	-	-	-	7,845	469	(62,644)	(54,330)
Share-based payment	-	-	-	187	-	-	-	187
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	187	-	-	-	187
Total shareholders' equity as of June 30 2011	155,012	28,007	237,122	7,385	42,927	469	(277,541)	193,381

The accompanying Notes constitute 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						
	Share Capital	Share Premium	Capital Reserve from Trans-actions with a Former Controlling Shareholder	Capital Reserve in Respect of Share-Based Payment	Capital Reserve in Respect of Cash Flow Hedging	Accumul-ated Loss	Total
	Thousands of Dollars						
	(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)
Earnings in respect of cash flow hedging, net of tax	-	-	-	-	16,516	-	16,516
Total comprehensive income for the period	-	-	-	-	16,516	(1,690)	14,826
Share-based payment	-	-	-	444	-	-	444
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	444	-	-	444
Total shareholders' equity as of June 30 2010	155,012	28,007	237,122	6,858	(14,306)	(273,642)	139,051

The accompanying Notes constitute 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 Ending June 30 2011							
	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	Capital Reserve from Translation Differences of Foreign Activity	Accumulated Loss	Total
	Thousands of Dollars (Unaudited)							
Balance as of April 1 2011	155,012	28,007	237,122	7,299	61,441	87	(257,833)	231,135
Loss for the period	-	-	-	-	-	-	(19,708)	(19,708)
Loss in respect of cash flow hedging, net of tax	-	-	-	-	(18,514)	-	-	(18,514)
Exchange rate differences from the translation of foreign activity, net of tax	-	-	-	-	-	382	-	382
Total loss for the period	-	-	-	-	(18,514)	382	(19,708)	(37,840)
Share-based payment	-	-	-	86	-	-	-	86
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	86	-	-	-	86
Total shareholders' equity as of June 30 2011	155,012	28,007	237,122	7,385	42,927	469	(277,541)	193,381

The accompanying Notes constitute 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 Ending June 30 2010						
	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	Accumulated Loss	Total
	Thousands of Dollars						
	(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
Earnings in respect of cash flow hedging, net of tax	-	-	-	-	2,423	-	2,423
Total comprehensive 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	155,012	28,007	237,122	6,858	(14,306)	(273,642)	139,051

The accompanying Notes constitute an integral part of the Concise Consolidated Financial Statements.

EL AL Israel Airlines Ltd.

Consolidated Statement of Changes in Shareholders' Equity

	For the Year Ending December 31 2010						
	Share Capital	**Share Premium**	**Capital Reserve from Trans-actions with a Former Controlling Shareholder**	**Capital Reserve in Respect of Share-Based Payment**	**Capital Reserve in Respect of Cash Flow Hedging**	**Accumu-lated Loss**	**Total**
	Thousands of Dollars						
Balance as of January 1 2010	155,012	28,007	237,122	6,414	(30,822)	(271,952)	123,781
Yearly profit	-	-	-	-	-	57,055	57,055
Earnings in respect of cash flow hedging, net of tax	-	-	-	-	65,904	-	65,904
Total comprehensive income for the year	-	-	-	-	65,904	57,055	122,959
Share-based payment	-	-	-	784	-	-	784
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	784	-	-	784
Total shareholders' equity as of December 31 2010	155,012	28,007	237,122	7,198	35,082	(214,897)	247,524

The accompanying Notes constitute an integral part of the Concise Consolidated Financial Statements.

EL AL Israel Airlines Ltd.

Concise Consolidated Statement of Cash Flow

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30		For the Year Ending December 31
	2011	2010	2011	2010	2010
	Thousands of Dollars				
	(Unaudited)		(Unaudited)		
Cash Flows from Operating Activities					
Income (loss) for the period	(62,644)	(1,690)	(19,708)	14,842	57,055
Appendix A - Adjustments required for presentation of cash flow from operating activities	139,524	138,416	39,922	68,009	146,236
Cash deriving from operating activities, net	76,880	136,726	20,214	82,851	203,291
Cash Flows Used for Investment Activity					
Acquisition of fixed assets (including general engine overhauls and payment on account of aircraft)	(61,576)	(20,344)	(24,433)	(12,094)	(46,548)
Proceeds from the realization of fixed assets	383	2,401	228	1,168	2,802
Investment in intangible assets	(984)	(972)	(612)	(661)	(3,054)
Realization of restricted deposits	-	5,503	-	3,630	7,003
Decrease (increase) in short-term deposits, net	34,549	157	(20,236)	310	(55,632)
Investment in deposits for service providers and long-term	(54)	(73)	(6)	(16)	(157)
Repayment of deposits for service providers and long-term	213	156	148	115	354
Cash used for investment activities, net	(27,469)	(13,172)	(44,911)	(7,548)	(95,232)
Cash Flows from (for) Financing Activities					
Repayment of long-term loans from financial institutions	(29,986)	(30,444)	(18,115)	(18,733)	(77,804)
Receipt of other long-term loans	18,326	2,452	18,326	61	2,568
Repayment of other long-term loans	(883)	(586)	(260)	(559)	(1,596)
Increase (decrease) in short-term credit, net	2,347	(25,896)	1,456	(24,070)	(26,912)
Cash deriving from (used for) financing activities, net	(10,196)	(54,474)	1,407	(43,301)	(103,744)
Increase (decrease) in cash and cash equivalents	39,215	69,080	(23,290)	32,002	4,315
Balance of cash and cash equivalents at the beginning of the period	111,002	106,687	173,507	143,765	106,687
Balance of cash and cash equivalents at the end of the period	150,217	175,767	150,217	175,767	111,002

The accompanying Notes constitute 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
	2011	2010	2011	2010	2010
	Thousands of Dollars				
	(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)	69,315	66,700	36,029	32,474	130,580
Adjustment of value of long-term deposits	(71)	45	(35)	75	(98)
The Company's share of the profits of subsidiaries, net of tax	(880)	-	(145)	-	(45)
Deferred taxes, net	(11,697)	(594)	(2,967)	4,776	6,098
Increase (decrease) in liabilities in respect of employee benefits and in provisions	87	12,635	(4,655)	(6,480)	(495)
Net capital gains from realized fixed assets	(319)	(333)	(177)	(121)	(672)
Benefit value of employee stock option program	187	444	86	214	784
Loss from the fair value adjustment of derivatives via gain/loss	5,683	2,624	7,411	1,055	555
Purchase of options for jet fuel hedging	(13,463)	-	(78)	-	-
Receipts from the sale of jet fuel hedging agreements	31,542	-	495	-	-
Profit from shares and options received for no return	(1,771)	-	(885)	-	(11,145)
Revaluation of shares and options received for no return	1,538	-	1,005	-	821
Changes in asset and liability items:					
Increase in trade receivables	(46,037)	(68,264)	(11,217)	(23,437)	(20,874)
Decrease (increase) in other accounts receivable	(5,979)	(583)	(528)	1,405	(4,725)
Increase in prepaid expenses	(7,063)	(9,137)	(3,733)	(3,378)	(7,665)
Decrease (increase) in inventories	(15,994)	8,843	(1,227)	4,544	3,191
Increase in trade payables	22,629	23,877	11,290	17,340	28,942
Increase (decrease) in other payables	17,248	9,373	11,383	4,758	(6,430)
Increase (decrease) in unearned revenues	94,569	92,786	(2,130)	34,784	27,414
	139,524	138,416	39,922	68,009	146,236
Appendix B – Payment (Receipt) of Interest, Taxes and Dividends, Classified Under Cash Flow from Operating Activities					
Interest payments	10,300	8,327	4,602	4,824	25,138
Interest receipts	(1,520)	(319)	(546)	(173)	(2,817)
Tax payments - advances in respect of extraneous expenses	51	50	36	31	334
Dividend receipts	-	-	-	-	(20)

The accompanying Notes constitute 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 engaged, through its subsidiaries (hereinafter – "the Group") in the transport of passengers and cargo on scheduled domestic Israeli flights and on international flights between Israel and foreign countries. For further information on the Group's operating segments, see Note 12.

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. The number of Israeli departures and tourist arrivals in the reported period was influenced by the fact that the Passover holidays fell in April this year (Q2), while last year it fell in March (Q1).

c. These concise statements must be seen in context with the Company's yearly Financial Statements for December 31 2010 and for 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 attached separate financial information as per Regulation 38d of the Securities Regulations (Periodic and Immediate Reports), 1970, to the Financial Statements for the period ending June 30 2010.
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: 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 11 below.

e. In light of its business results, the Company is putting together a work and action plan designed to improve its business results and cash flow. The key points of the plan were presented to the Board of Directors and included, among other things, an optimization of commercial actions while closely and carefully managing the flight schedule and increasing operating revenues, including revenues not related to the sale of flight tickets, reduction of costs and additional actions in financial areas.
In light of the above, Company management is of the opinion that the Company is capable of realizing its plans.

Note 2 - Principal Accounting Policies

a. **Basis for the preparation of the Financial Statements:**

The Group's concise Interim Consolidated Financial Statements (hereinafter: "Interim Statements") have been prepared 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 2010 and for the year ending that date.

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.

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

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 rated published by the Bank of Israel and in effect as of the balance sheet date.

(2) Balances linked to the Consumer Price Index are presented using the most recent known CPI value as of the balance sheet date (the CPI for the month prior to the month of the balance sheet date).

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(3) Below is data for USD exchange rates and CPI in Israel:

	As of June 30 2011	**As of June 30 2010**	**As of December 31 2010**
Consumer Price Index – in points	119.9	115.2	117.8
USD/NIS exchange rate	3.415	3.875	3.549
USD/EUR exchange rate	0.691	0.815	0.749
USD/Pound Sterling Exchange Rate	0.625	0.665	0.646

Change in %:

	For the Six Month Period Ending June 30 2011	**For the Six Month Period Ending June 30 2010**	**For the Year Ending December 31 2010**
Consumer Price Index	1.8%	0.4%	2.7%
USD vs. NIS	(3.8)%	2.6%	(6.0)%
USD vs. EUR	(7.7)%	17.4%	7.9%
USD vs. pound sterling	(3.2)%	7.6%	4.5%

	For the Three Month Period Ending June 30 2011	**For the Three Month Period Ending June 30 2010**
Consumer Price Index	1.3%	1.3%
USD vs. NIS	(1.9)%	4.4%
USD vs. EUR	(1.7)%	9.5%
USD vs. pound sterling	0.5%	0.5%

d. Investment in Affiliate

In accordance with international standards, the purchasing company, which achieves material influence over a different company, must make an allocation of the price of purchase (PPA) for the proceeds paid, in accordance with IAS 28. In accordance with the standard, the Buyer must identify the Purchased Company's identified assets as of the date of purchase (on the date material influence was achieved).

IAS 28 states that the investment in the affiliate shall be carried out using the book value method, meaning that investment in an affiliate will first be recognized according to cost and the book value will increase or decrease to reflect the investor's share of the profit or the loss of the investment subsequent to the balance sheet date.

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

Note 3 - New Financial Reporting Standards and Clarifications Published

a. New standards and interpretations impacting the current period and/or previous reported periods:

- **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
  The Company decided to present other comprehensive items in the Report on Changes in Equity.

b. New standards and clarifications, already in effect, which have no material impact on the current period and/or on previous reporting periods:

- **IAS 34 – "Interim Financial Reporting**"

  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, and certain disclosure requirements were added. The revision is applied retroactively to yearly reporting periods starting January 1 2011 or subsequently.

- **IFRIC 19 "Removal of Financial Liabilities by Capital Instruments"**

  The interpretation establishes the accounting treatment regarding the removal of financial liabilities by issuing capital instruments. The interpretation established that in the event of such an occurrence, the liability shall be subtracted with 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 equity instruments issued, charged to the Statement of Operations.
  In the opinion of Company management, implementation of the interpretation has no impact on its financial status and operating results.

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

  This revision states 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 in the form of refunds from the plans or a reduction in future deposits to the plan.
  In the opinion of Company management, implementation of the interpretation has no impact on its financial status and operating results.

c. New standards and clarifications that have been published and are not in effect, and which have not been adopted by the Group by way of early adaptation, which are expected to have or may have an impact on future periods:

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

  The revision includes demands regarding the entity's exposure to risk due to financial asset transfer transactions in which the transferring party retains a certain level of continuing exposure to the asset ("continuous involvement"), and regarding financial asset transfer transactions subtracted in full, carried out near the end of the reported period.

The amendment applies on a prospective basis to yearly periods starting January 1 2012. Early adoption is possible. The new disclosures are not required for reporting periods occurring before the revision's first implementation.
In the opinion of Company Management, implementation of the standard has no impact on its financial status and operating results.

- **IAS 1 (Revised), "Presentation of Financial Statements" (on the matter of presentation of comprehensive profit items in the Report on Comprehensive Earnings)**

This amendment states that items included under Other Comprehensive Earnings will be separated and presented in one of the following two groups;

- Items that will be classified to gain/loss in the future,
- Items that will not be classified to gain/loss in the future.

In addition, the amendment states that in the event that the other comprehensive earnings items are presented before the tax influence, the tax influence shall be presented separately for each of the groups. The amendment shall be applied retroactively to yearly reporting periods starting on or after January 1, 2013. Early adoption is possible.
In the opinion of Company Management, implementation of the standard has no impact on its financial status and operating results.

- **(2011) IAS 19 – Employee Benefits**

The amendment alters the directives of IAS 19 "Employee Benefits" in its current format, in the following aspects:

- Actuary profits or losses will be charged to Other Comprehensive Earnings and will not be classified to gain/loss on a later date.

  Accordingly, the alternatives of charging the actuary profits or losses to gain/loss immediately, or in accordance with the strip method, were cancelled.

- Interest income due to the assets of a defined benefit plan shall be recognized on the basis of the capitalization rate of the commitment and not on the basis of the expected return on the assets.

- Short-term employee benefits will include benefits that are expected to be cleared in full within 12 months of the end of the year in which the crediting service was provided by the employee.

- Severance benefits as a result of an offer to encourage voluntary retirement shall be recognized as a liability on the date on which the reporting entity can no longer withdraw from the offer.

The amendment shall be applied retroactively, barring exceptions as detailed in the standard, to yearly reporting periods starting on or after January 1, 2013. Early adoption is possible. At this stage, Company management is unable to estimate the impact of implementation of this standard on its financial standing and operating results.

- **IFRS 13 - "Fair Value Measurement"**

This standard replaces the detailed fair value measurement directives in the various international financial reporting standards with directives collected in a single standard, which will constitute a guide for measuring fair value. Accordingly, directives were set for the measurement of fair value for all items measured at fair value in the balance sheet or for disclosure purposes.
In accordance with the standard, fair value is defined as the sum that would have been received from the sale of an asset or the sum that would have been paid to transfer liabilities of over the normal course of business between market participants on the date of measurement.

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated Financial Statements

The standard establishes the various approaches that can be used to measure fair value and notes that use must be made of evaluation techniques that make the best possible use of observed market data. Regarding non-financial data, it was decided that in order to measure their fair value, an evaluation must be made of their best possible use, and on the basis of this estimate their fair value.
The amendment shall be applied retroactively to yearly reporting periods starting on or after January 1, 2013. Early adoption is possible.
At this stage, Company management is unable to estimate the impact of implementation of this standard on its financial standing 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 subsequent periods.
For further details regarding critical accounting estimates employed by the Company, see Note 4 to the December 31 2010 Financial Statements.

Note 5 - Reclassification of Balance Sheet Balances

The following are balance sheet items the balances of which as of June 30 2010 were reclassified:

Prepaid expenses for the lease of aircraft to the amount of $5,734,000 were reclassified from Current Prepaid Expenses to Non-Current Prepaid Expenses.

The following are Statement of Operations items the balances of which were reclassified:

Discounts within the framework of operating revenues, for the six and three month periods ending June 30 2010 to the amount of $6,542,000 and $3,846,000, respectively, were classified to distribution costs within the framework of sales expenses.

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

a. Pursuant to Note 39a To the 2010 Financial Statements, in January 2011 the Company was allocated an additional 1,598,783 shares, constituting 3.75% of Maman's issued and paid-up share capital, so that the Company's total holdings after this allocation amount to 11.25% of Maman's issued and paid-up share capital. In addition, in November 2010 the Company was allocated options exercisable as regular shares at a rate close to 10% of Maman's issued and paid-up capital. Therefore, starting January 2011, as a result of achieving material influence over Maman for the first time, the Company included in its Financial Statements for the first quarter of 2011, an allocation of the purchase price (PPA) for the proceeds, this as per IAS 28.
Regarding the accounting policy implemented by the Company due to the first-time achievement of material influence over Maman, see Note 2d.

b. Fuel costs increased by 37% over the course of the reported period, compared to the fourth quarter of 2010. The meaning of a 1 cent increase in jet fuel prices for an entire year means an added yearly expense of $2.5 million.
Following the increase in jet fuel prices, the Company decided to update its fuel surcharge starting April 2011.

c. On January 19, 2011 the Company's General Meeting ratified the continuation of the tenures of the directors serving on the Company's Board of Directors (who are not external directors) as follows: Amikam Cohen, Tamar Moses Borowitz, Yehuda (Yudi) Levi, Professor Israel (Izzy) Borowitz, Amnon Lipkin-Shahak, Amiaz Saggis, Nadav Palti, Eran Ilan, Pinchas Ginsburg and Shlomo Hannael as well as the appointment of Ms. Sophia Kimmerling to the Company's Board of Directors, until the conclusion of next annual General Meeting.

d. Following Note 39.d.(5) to the December 31 2010 Financial Statements regarding the agreement with Wilmington Trust Sp Services (Dublin) Limited for the lease of a Boeing 737-800 aircraft, the airplane was received in January 2011 and has joined the Company's aircrafts fleet. The lease was classified as an operational lease in the Financial Statements.

e. As special collective agreement pertaining to temporary flight attendants and temporary employees in the administrative sector was signed in February 2011. According to the agreement, a special reserve of 150 employees from each sector shall be determined, to remain employed for an additional period of ten years as temporary employees. The working conditions of these employees shall be equivalent to full-time second generation workers, with the exception of their education fund. These employees shall adhere to the second generation employee disciplinary code. Dismissal of such employees due to incompatibility shall be via a consensual on par committee or following arbitration. The agreement shall remain in effect for three years with the option of extending it by an additional two years.

f. On February 2 2011 the Company was provided with a copy of a motion to approve the filing of a claim as a derivative claim ("the Motion") as well as a copy of the derivative claim. The motion was filed to the Economic Department of the Tel Aviv District Court by a holder of 5,000 Company shares (constituting 0.001%). Note that the shareholder had submitted two demands to the Company, which had been rejected by the Company's Board of Directors.
According to the wording of the motion, the court was asked to approve a derivative claim to the amount of 22,800 thousand NIS against Israel (Izzy) Borowitz, Tamar Moses Borowitz, Amiaz Saggis, Nadav Palti, Amnon Lipkin-Shahak, Yigal Arnon, Eyal Rosner, Shimon Katzanelson and Yehoshua Ne'eman, who had served on the Company's Board of Directors in 2005 during the ratification of the employment contract of the former Company CEO, Mr. Chaim Romano. The motion claimed, *inter alia*, that the aforementioned board members were negligent in determining and approving the yearly incentive bonus for Mr. Romano, who had served as the Company's CEO between 2005 and 2009, as well as regarding the Company's reports on the formula of the bonus in question.

On March 10, 2011, the Securities Authority provided the Company with an audit report regarding the terms of employment of senior Company executives, including the Company's outgoing CEO, Mr. Chaim Romano. On March 14, 2011 the Company announced that pursuant to the talks the Company is conducting to restore and/or receive compensation for an excess of 4 million NIS paid the outgoing CEO, the Company negotiated with the outgoing CEO that he would refund the Company a total of 1 million NIS and the Company also negotiated with the insurance company, with which the Company entered into an executive insurance policy, that it would pay the Company a total of $750,000 U.S., on account of the compensation required from directors and executives or either to reduce or clear the derivative claim. Note that Professor Israel Borowitz resigned from the Company's Board of Directors on March 9, 2011.

On April 10, 2011, the Company filed a motion to grant the power of a verdict to a proposed settlement in the derivative claim, according to which the Company would be compensated to the amount of 4,750,000 NIS ("the Compensation Sum").
According to the agreement, this sum shall constitute full, final and absolute compensation for all matters pertaining to the derivative claim.
Pursuant to the above motion, the court was asked to: (a) revise the derivative claim in such a manner that the outgoing CEO and other Company directors, past and present, not appearing originally as respondents in the claim motion, be added to the defendants; and (b) revise the grounds of the claim so that it also includes other issues pertaining to the approval of the terms of service and employment of the outgoing CEO and resulting

reports, including those noted in the Securities Authority audit review dated March 10, 2011 (published by the Company on the same date).
Out of the total compensation, a total of 1,000,000 NIS was paid the Company by the outgoing CEO in April 2011, as a retroactive reduction of the sums of the bonuses he received during his tenure. In addition, the Company signed a waiver for the Outgoing CEO according to which, upon the repayment of the sum in question, the Company shall have no complaints against him for any matter pertaining to the terms of his employment at the Company.
In accordance with the April 27, 2011 court ruling, notice of the request for the settlement in question was published in two economic daily newspapers and additional information and a copy of the motion were delivered to the Securities Authority.

On May 22, 2011 the court ratified the settlement (including requested corrections).
In June 2011 the Company was paid a sum of 3,750,000 NIS as the insurers' share of the settlement payment, these sums were recognized as income in Q2 2011 under operating income.

On May 22 and 24, 2011 the Company's Audit Committee and Board of Directors studied the appropriateness of the bonuses the Company granted nine executives in 2005 (hereinafter: "the Executives"), which had not been ratified in accordance with the law.
After the examination that included, among other things, an review of the appropriateness of the bonus sums granted each of the executives relative to an evaluation of the functioning of each executive in the period in question, this among other things on the basis of a review of comparative data carried out by an independent party, the Audit Committee and Board of Directors decided, unanimously, to ratify the bonuses to all of the executives (to the total amount of 1,970 thousand NIS).
Pursuant to their decision, the Audit Committee and Board of Directors determined that the sums granted each of the executives was appropriate.
Furthermore, it was determined that the sums of the bonuses were not unusual, with the exception of the bonus granted Dr. Shmuel Feldal, who had served as the Company's VP of Maintenance and Engineering, to the amount of 270 thousand NIS, which was ratified as an exceptional transaction, this due to the sum of the grant relative to Mr. Feldal's service in the Company over the course of 2005 (5 months), granting a bonus without establishing a mechanism for studying compliance with goals as stated in the employment agreement as well as due to the paucity of relevant comparison numbers for executives in similar positions. Dr. Feldal's total monthly salary for the relevant period was 67.5 thousand NIS (gross) and he left the Company on April 30 2008. The grounds provided by the Audit Committee and the Board of Directors for approving the grant to Mr. Feldal are his activities during the period for which the bonus was given and the great deal of responsibility Dr. Feldal bore in his duties as the party responsible for the maintenance and safety of the Company's airplane fleet, handling the improvement of the Company's operational fitness and precision as well as in light of the amount of the work resulting from the responsibilities in question.

g. On February 10, 2011 the Company's Board of Directors ratified the signing of a settlement with the Income Tax Authorities (Ramle Assessment Clerk).
This settlement came as a result of a dispute between the Company and Income Tax in which the Company received assessments followed by orders for 1998 through tax year 2005. The sum of the assessments issued was estimated by the Company at a total sum of 186 million NIS ($53.4 million) including interest and linkage differentials up to December 31, 2010.
The key points of the dispute between the Company and the tax authorities are the value of flight tickets, on the basis of available seats and on the basis of reserved seats, granted employees as discounts, as follows:
a. For flight tickets granted on an available seat basis, the Company's position was that the value of the ticket shall be calculated at a rate of 22.5% of the flight ticket prices established as a basic price for the issue of employee economy class tickets, according to an arrangement conducted in the past with Income Tax and revoked in 1997. The assessor determined, in assessments issued for the Company for 1998-2005, the value of the flight ticket at variable rates from the average price of economy class tickets, which are higher than the rate set by the Company above (up to 75% of the price of an average ticket), this based on the average load factor for the month in which the flight took place.
b. For flight tickets on a reserved seat basis, which the Company allows its employees to purchase in return for a payment of 50% of the price of a flight ticket set by the Company as an average economy class price,

the Company paid fixed tax levels, but in assessments issued for the Company for 2001 to 2005, Income Tax determined that the value of the flight ticket is 214% of the price of an average economy class ticket.
c. In addition, the assessments issued for 1998 through 2002 included tax debits for employees stationed abroad for periods of over 4 years as well as for a tax offset paid by Company employees in the U.S.
The Company has appealed these assessments before the District Court based, among other things, on economic opinions materially different from those of the Income Tax assessments.
The parties held talks to resolve the disputes in question and on February 10, 2011 the Company's Board of Directors ratified a settlement between the Company and the Ramle Assessment Clerk, as follows:
a. The Company shall pay Income Tax up to and including 2010 a final and absolute sum of 65 million NIS including payment for the assessments for which the orders were issued for tax years 1998-2005 and the full deduction debts for employee flight tickets and surplus and other expenses for 2006 through 2010. The agreed-upon sum of 65 million NIS was paid in February 2011.
b. An agreement regarding the value of flight tickets for Company employees in the purchase of flight tickets on an available seat basis and on a reserved seat basis, for 2011 through 2013.
On February 16, 2011 the agreement was approved by the court, thus concluding the legal proceedings between the Company and Income Tax regarding the deduction assessments issued for the Company.
For all of the above Income Tax requests, up to and including 2010, the Company made financial provisions exceeding the sum of the settlement described above, and therefore the Company reduced the sum of the provision listed in its books and recognized other revenues to the amount of $22.25 million in its 2010 Financial Statements under "Other Revenues".
In addition to the above, as of June 30 2011 an appropriate provision exists in the Company's books for Social Security commitments deriving from the settlement with Income Tax. The Company is undergoing talks with the Social Security Institute in order to reach an arrangement regarding this commitment.

h. On March 22, 2011 the Company CEO informed the Company Board of Directors, at his own initiative, that he had decided to transfer to the Excellence and People fund, to be established in 2011, a sum equal to 50% of the yearly bonus owed him for 2010, in accordance with the term of his employment, meaning a total of 5.7 million NIS (gross). This sum will be added to a sum of 2 million NIS, which will be deposited in the above fund.
The sums in this fund are intended for the development, encouragement and promotion of excellence in the Company and personal excellence, as pertains to all of the Company's employees in Israel and around the world who are not members of its management. The Company has begun the process of establishing the fund's methods of operation and the use of the fund's resources.

i. On March 22, 2011 the Company approved an engagement to receive various advertising and purchasing services for 2011 and ratified, for the sake of prudence, an engagement to receive various advertising services granted in the past for 2008, 2009 and 2010.
The advertising services in question shall be ordered for the Company by the Company's advertising agency from various bodes, including the Yediot Acharonot Group and the C. T. V. Media Enterprise for the sale of billboard advertising ("the Enterprise"). In addition, the Company Board of Directors approved the purchase of newspapers and magazines belonging to the Yediot Acharonot group for distribution to passengers on Company flights.
The engagements in question were approved by the Company's Board of Directors as non-exceptional transactions, in which the Company's executives and controlling shareholders may have a personal interest, in light of the fact that Yediot Acharonot is a company owned by the brother of Ms. Tamar Borowitz (Deputy Chairman of the Board of Directors and a controlling shareholder of Knafaim holdings Ltd.), and that the Enterprise is operated by companies, including C.T.V. Media Israel Ltd., in which Ms. Borowitz and Mr. Nadav Palti (a Company director) indirectly hold part of its shares and serve on its board of directors, and in which Professor Israel Borowitz (a Knafaim controlling shareholder) indirectly holds some of its shares.
The Board of Directors' state reasons for approving the engagements in question were that the engagements are for the Company's good, taking into account the distribution and rating data of the newspapers, magazines and websites of the Yediot Acharonot Group and of the enterprise, and taking into account the Company's marketing needs.
The Company's Board of Directors set a yearly framework for 2011 for the engagements detailed above to the amount of 3,450 thousand NIS for engagements with the Yediot Acharonot group and to the amount of

1,480 thousand for engagements with the Enterprise only, so long as all of the engagements are under market conditions.
In addition, the Company Board of Directors established mechanisms for supervising compliance with the terms of the engagement framework as well as for supervision of their performance under market conditions and prices.

j. In March 2011 the Airports Authority informed the Company that it had decided not to exercise its option in the agreement between it and the Company allowing an additional extension of 24 months for the provision of services for managing and operating the Company passenger lounge. The agreement ends on November 1, 2011. The Airports Authority informed the Company that it is preparing for the publications of a tender for a commercial license to operate the lounge. The Company objects to the refusal to extend the agreement and has asked to continue negotiations to extend the agreement. The Company is currently in negotiations with the Airports Authority to extend the contract.

k. Sun D'Or's operational license was revoked on April 1, 2011.
In April and May 2011, Sun D'Or continued to market the flights operated by it in the past, which were carried out by the Company (weekdays) and by other airlines (weekends and holidays). Starting June, Sun D'Or has acted as a tourism organizer while preserving the Sun D'Or brand for charter flights marketed by it and carried out by the Company on weekdays only. Following Sun D'Or's appointment as designated carried to various destinations by the Ministry of Transportation and following the cancellation of its operational license, these appointments were transferred to the Company, except for the Eilat-Moscow route.
On April 1, 2011 the Company ceased leasing to Sun D'Or, via dry lease, three aircrafts from its Boeing 757-200 fleet and the aircrafts returned to the Company's service.
Sun D'Or is currently filing an official request to the CAA to start the process of receiving a new operational license.

l. On April 7, 2011 the Company received a notice from the Restraint of Trade Authority, according to which the Restraint of Trade Commissioner was considering using his authority to declare the Company a monopoly in the supply of aviation security services abroad, according to professional guidelines provided airlines by a certified officer in accordance with the Arrangement of Security in Public Bodies Law, 1998 regarding passengers and cargo on passenger flights.
The Company approached the Authority with a request to receive the examination results, is studying the subject and shall examine its open course of action, among other things in light of the Company's position that aviation security is the State's responsibility as sovereign and therefore it is not a commercial service the Company must supply.

m. Following Note 39.d.(9) to the December 31, 2010 Financial Statements regarding the agreement with AWMS for the lease of a 767-300ER airplane (EAL), in April 2011 the aircraft was accepted and joined the Company's aircrafts fleet. The lease was classified as an operational lease in the Financial Statements.

n. On May 1, 2011, the Company's Board of Directors approved an engagement with "Yediot Subscribers" of the Yediot Acharonot group for a joint limited-time deal, in which Yediot Acharonot subscribers (as defined by the newspaper) would be offered tourism packages, including Company flights to selected destinations at special prices in return for the allocation of advertising space for the Company in the newspaper. The deal and the package destinations will be published over the course of the deal period.
This agreement was approved by the Company's Board of Directors as an exceptional transaction, in which a Company executive and Company controlling shareholders may have a personal interest, as Yediot Acharonot is controlled by the brother of Mrs. Tamar Moses-Borowitz (Deputy Chairman of the Company's Board of Directors and a controlling shareholder in the Company and in Knafaim holdings Ltd.).
The essence of the Board of Directors' stated grounds for approving the transaction is that the engagement will provide the Company with broad advertising exposure, taking into account the newspaper's distribution data and will allow the Company to advertise destinations it is interested in promoting.

o. On May 2011 the Airports Authority informed the airlines operating out of BGN including the Company, that jet fuel refueling at BGN would be halted, after an unidentified contaminant was found in the BGN refueling tanks. As a result, international and domestic flights that were supposed to have departed from

BGN were cancelled and disrupted. The Company acted to find alternate solutions for its flights, and besides the cancellation of 20 flights by the Company, the Company's flights departed as planned, as alternate refueling solutions were found, including refueling at stopovers. Starting May 10, 2011, airplanes at BGN gradually returned to regular refueling procedures, after the Ministry of Transportation's announcement that regular activities can be resumed.
Besides the cancellation of flights, as noted above, additional expenses were increased by the Company as a result of the change in activity and the need to refuel at stopovers as well as passenger expenses (such as hotel expenses and reimbursements for cancelled flights). However, the damage assessment regarding additional costs caused the Company as a result of the change in activity due to the event has yet to be completed.

p. Following the agreement signed with airplane manufacturer Boeing for the purchase of 737-900ER aircraft, in May 2011 an agreement was signed with engine manufacturer CFM Aircraft, S.A. for the purchase of a thrust upgrade for engines provided with the airplanes and for the purchase of a CFM5-7B-24/3 spare engine for the Company's 737 fleet. Regarding the purchase of a space engine, see Note 7h.

q. The Company discontinued the operations of its 747-200F (AXL) cargo plan in June 2011 following the need for heavy maintenance works required for its continued operation. The Company approached the State for its consent to remove the plane form service. Concurrent with and subject to the approval of the State, alternatives are being studied to the airplane's sale.

r. In May 2011 the Company signed agreements to place specific liens in favor of a banking institution on the Company's right to receive money from the sale of flight tickets from a limited number of agents. In addition, the Company placed a lien on its property on 32 Ben Yehuda St. in favor of this banking institution.

s. On May 22 and 24, 2011 the Company's Audit Committee and Board of Directors approved an engagement, through the Company's controlling shareholder – Knafaim holdings Ltd. ("Knafaim") with Menorah Mivtachim Insurance Ltd. for the renewal of the director and executive insurance policy for an additional period. The insurance is within the framework of a collective insurance policy prepared by Knafaim for its executives, in subsidiaries and affiliates, in accordance with the framework agreement ratified by the general meeting of the Company's shareholders on May 10, 2005 ("the Framework Agreement"). This engagement is subject to the approval of the authorized parties at Knafaim.
In accordance with the terms of the framework agreement, the policy is limited to $100 million plus an added 20% of the above limit for legal defense expenses in Israel.
The policy shall remain in effect form April 1, 2011 to September 30, 2012 (and in the matter of directors who are controlling shareholders – subject to Section 275(a1)(1) of the Companies Law, 1999, which will come into effect on the date stated in Section 49(g) of Amendment 16 to the Companies Law, 2011).
In accordance with the terms of the framework agreement, the Company's share of the insurance fees is a sum of $140 thousand a year (and relative to an 18 month period - $211 thousand), which constitutes 65% of the insurance fees for the group policy. The deductible is between $10,000 and $75 thousand (according to the type and nature of the suit).
The Audit Committee and Company Board of Directors approved the engagement in accordance with Regulation 1(3) of the Companies Regulations (Relief in Transactions with Interested Parties), 2000 and determined that the engagement is compatible with the terms set in the framework transaction.
A summary of the arguments made by the Company's Audit Committee and Board of Directors for the approval of the engagement:
1. Engaging in the insurance policies benefits the Company as it allows directors and executives to fulfill their duties properly, taking into account the risks involved in their duties and the directors' and executives' legal responsibilities.
2. The very act of purchasing an insurance policy subtracts from the Company's indemnity obligation toward the directors and executives in accordance with the letters of indemnity granted the directors and executives by the Company.
3. The agreement is compatible with the terms set in the framework agreement.
4. Engagement in executive liability insurance policies are generally accepted engagements in Israeli public companies.

t. On June 29, 2011 the Company's Board of Directors approved an engagement with the law firm of Goldfarb, Levi, Eran, Meiri, Tzafrir & Co. ("the Firm") in a business client agreement under generally accepted terms for business clients with similar scopes of activity, according to which the Company would provide benefits

to the Firm's employees in the purchase of flight tickets, if and when they choose to make use of the Company's services, starting January 1, 2011 and ending December 31, 2011 as well as for an additional extension of one year under the same terms. The Board of Directors also ratified earlier agreements signed between the Firm and the Company between 2008 and 2010.
This agreement, including the previous agreements, were approved by the Company's Board of Directors after being classified by the Audit Committee as non-exceptional transactions, in which a Company executive or controlling shareholder may have a personal interest, as Yehuda (Yudi) Levi, Esq., is the Firm's managing partner and serves as the Company's Deputy Chairman of its Board of Directors and is an interested party in A.L. Aviation Assets, which is considered a controlling shareholder at Knafaim and at the Company.
A summary of the Board of Directors' arguments for approving the agreements is that the engagements are not exceptional, that they benefit the Company taking into account their terms and the advantage involved in adding and additional business client t the list of regular business clients making use of the Company's services.

u. On June 29, 2011 the Company's Board of Directors approved an engagement with Dori Media Group Ltd. ("Dori Media") in a business client agreement under generally accepted terms for business clients with similar scopes of activity, according to which the Company would provide benefits to the Firm's employees in the purchase of flight tickets, if and when they choose to make use of the Company's services, starting May 2011 and ending May 2012 as well as for an additional extension period of one year under the same terms. The Board of Directors also ratified earlier agreements signed between Dori Media and the Company between 2007 and 2010.
This agreement, including the previous agreements, were approved by the Company's Board of Directors after being classified by the Audit Committee as non-exceptional transactions, in which a Company executive or controlling shareholder may have a personal interest, as the Company's Deputy Chairman of its Board of Directors and Company interested party, Mrs. Tamar Moses Borowitz is the indirect controlling shareholder at Dori Media and a member of the Dori Media Board of Directors. In addition, the Deputy Chairman of the Company's Board of Directors, who is numbered among the Company's controlling shareholders, Yehuda (Yudi) Levi – is a member of the Dori Media Board of Directors and Board member Mr. Nadav Palti is the CEO and President of Dori Media and holds Dori Media shares indirectly.
A summary of the Board of Directors' arguments for approving the agreements is that the engagements are not exceptional, they benefit the Company taking into account their terms and the advantage involved in adding and additional business client t the list of regular business clients making use of the Company's services.

v. On June 30, 2011 the Tel Aviv District Court issued an order to freeze the legal proceedings against Agrexco (a Company client) at Agrexco's request, which was extended to August 10, 2011. On August 11, 2011 the Tel Aviv District Court order to extend the procedure freeze order against the Company until August 30, 2011, when a hearing will be held on he matter of the settlement proposal and the results of the creditor's meeting before the Tel Aviv District Court.
The Company began working with Agrexco solely on a cash basis, but at the same time, no material impact is expected on the Company's Financial Statements.

Note 7 - Fixed Assets

a. Impairment of fixed assets

Over the course of the reported period, the Company examined the recoverable sum of aircrafts fleets in which signs of impairment were evident. The recoverable sum is calculated as the net sales price or the value in use of the asset that is the current value of the estimated future cash flow expected to derive from continuous use of the asset and its sale at the end of the period of use ("cash flow capitalization").
The key assumptions employed in calculating the capitalization of the cash flow are: useful life – for the 777-200 fleet – an average of 12 years of activity, for the 747-400 fleet – an average of 7 years of activity. This is an 8% discount rate. The load factor for coming years was assumed as a fixed rate according to the projection for 2011. The current tax rate expected for the Company for the coming 7-12 year period is zero. The expected cash flow from activity was calculated according to the 2011 projection.
It was found that the recoverable sum for each aircrafts fleet surpasses its depreciated cost as of that date. Accordingly, no provision for the impairment of aircraft assets was made in these Financial Statements.

b. Aircraft Fleet Decommission Dates

In accordance with a renewed evaluation of the Company's flight equipment needs, and looking towards alternate aircrafts entering service, the average life span until decommissioning of the 747-400 fleet was extended by 18 months.
Following the change of estimate in question, in the first half of 2011 and in the reported period the Company listed a decrease in the depreciation expenses item, within the framework of operating expenses, to the amount of $2.4 million and $1.2 million, respectively. The total decrease in depreciation costs for all of 2011 following the change in estimates is expected to amount to a total of $4.8 million.

c. Unrestricted Assets

The Group's key assets are aircrafts and spare engines, the depreciated cost of which as of June 30, 2011 is $1,074 million. The depreciated cost of the flight equipment in question, which is not pledged to a third party, is $20 million.

d. On February 7 2011 an agreement was signed, ratified by the Company's Board of Directors on March 22, 2011, with aircraft manufacturer Boeing" ("the Agreement") for the purchase of 4 new Boeing 737-900ER planes and two additional planes of the same model that are convertible to purchase options. In addition, the Company was granted the option to purchase two additional aircraft of this model ("the Option"). Furthermore, the Company's Board of Directors approved the purchase of an engine from CFM international S.A. to serve as an additional reserve engine for the aircraft fleet. In this Agreement the Company was granted conversion rights for other models, as well as associated rights. The total value of the agreement is estimated at between $215 million and $320 million (respectively for four to six aircraft, as purchased in practice, without the Option) and reflects the average market value of airplanes of this model and similar year of production, in accordance with generally accepted aircraft price lists and subject to adjustments and investments in accordance with the wording agreed upon by the parties, including linking the aircraft prices, using an accepted linkage formula. The payments for each plane shall begin two years before each plane is delivered to the Company, or according to other payment options at the Company's disposal. Furthermore, the parties agreed upon terms for the use of advance payments paid Boeing by the Company for prior transactions. According to the agreement, the planes are expected to join the Company's passenger fleet starting from the end of 2013 until 2016. The aircraft are expected to serve the Company for short and medium ranges (Europe and regional destinations) and shall replace narrow-bodied aircraft as per Company strategy. The aircraft shall be operated in a 160-seat configuration, divided into two classes. Note that these aircraft are of a modern and advanced design, with modern engines and advanced interior configuration. In the matter of the aircraft purchase agreement, during the reported period the Company made advance payments of non-material sums.

e. Following Note 42(5) to the December 31, 2010 Financial Statements regarding the agreement signed with R.B. Leasing Company Limited for the purchase of a 747-400 (ELH) passenger aircraft; the airplane was received at the Company in the beginning of March 2011.
The maintenance and engineering works have been completed and the plane began operating commercial flights on July 15, 2011. In May 2011 the Company signed a loan agreement with a local bank to finance the purchase of the aircraft to the amount of $14.5 million US.
The Company has the option of increasing the sum of the financing after improving the airplane. Financing is for a 4-year period with quarterly repayments of principal and interest and bears interest of LIBOR plus a margin. A lien was placed on the plane for the purpose of receiving this loan.

f. In March 2011 an extension and correction agreement was signed with SR Technics Switzerland Ltd. for the maintenance of CFM56-7B engines to the total amount of $24 million for the extended period; the agreement will remain in effect until February 5, 2019. The agreement includes the maintenance of 18 engines in the Company's possession as well as additional engines as determined by the Company.

g. In May 2011 the Company signed an agreement with the CFM engine manufacturer for the purchase of a space engine for the 737 aircrafts fleet. In July 2011 the engine entered service in the 737 fleet. The price of the engine is $8 million. For the purpose of financing the engine, a loan was received from a foreign bank to

the amount of $3.9 million, for a 7-year period with quarterly principal and interest payments and bearing fixed interest.
For the purposes of this loan, a lien was placed on the engine and a guarantee was received from the Exim U.S. export and import bank.

Note 8 - Financial Instruments

a. Material changes to the fair value of financial instruments measured at fair value:

The following are the changes in the fair value of financial instruments measured at fair value, to which material changes have been made to their fair value in the first half of 2011:

Financial Instrument	Asset (Liability) Fair Value as of January 1 2011	Change in Fair Value in the First Half of 2011	Asset (Liability) Fair Value as of June 30 2011
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
Jet fuel hedging agreements (1)	34,311	(20,965)	13,346
Interest rate swap agreements (2)	(22,068)	5,301	(16,767)
Forward agreements for the purchase of foreign currency (3)	12,170	2,061	14,231

(1) The change in fair value of jet fuel hedging agreements derives mainly from the expiry of agreements and from the sale of jet fuel hedging agreements over the course of the reported period and after offsetting the purchase of jet fuel hedging transactions over the course of the reported period (see 8.b).

(2) The change in the negative fair value of the interest rate swap contracts derives mainly from the expiry of transactions over the course of the reported period.

(3) The change in the fair value of foreign currency forward agreements derives mainly from additional hedging agreements carried out in the reported period, from the increase in the fair value of transactions that have not yet expired as a result of the drop in the NIS/USD rate of exchange and offset by the decrease in fair value due to the expiry of transactions over the course of the reported period.

The following are the changes in the fair value of financial instruments measured at fair value, for which material changes have been made to their fair value in the second quarter of 2011:

Financial Instrument	Asset (Liability) Fair Value as of April 1 2011	Change in Fair Value in the Second Quarter of 2011	Asset (Liability) Fair Value as of June 30 2011
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
Jet fuel hedging agreements (1)	45,782	(32,436)	13,346
Interest rate swap agreements (2)	(18,430)	1,663	(16,767)

Forward agreements for the purchase of foreign currency (3)	15,649	(1,418)	14,231

(1) The change in fair value of jet fuel hedging agreements derives mainly from the expiry of agreements and from the sale of jet fuel hedging agreements over the course of the reported quarter (see Section 8b).

(2) The change in the negative fair value of interest rate swap agreements derives mainly from the expiry of transactions during the reported quarter.

(3) The change in the fair value of foreign currency forward agreements derives mainly from the expiry of agreements in the reported quarter, offset by an increase in the fair value of agreements that have not yet expired as a result of the drop in the NIS/USD exchange rate.

b. Sale and purchase of jet fuel hedging agreements in the reported period:

In March 2011 the Company conducted sales and purchases of its jet fuel hedging transactions for the period between September 2011 and March 2012, mainly consisting of replacing some of the financial instruments used to hedge jet fuel in the period in question with other financial instruments, while making an early realization of hedging revenues to the amount of $31 million and purchasing other financial instruments worth $6 million in such a manner that the total result of the actions in question derived a cash bonus of $25 million that was deposited to the Company's bank accounts.
Hedging revenues to the amount of $31 million shall be recognized in the Company’s Statements of Operations based on the original repayment dates of the transaction for the period in question, of which $22 million shall be recognized in the second half of 2011 and the balance to the amount of $9 million shall be recognized in the first quarter of 2012.
In addition, over the course of the first half of 2011 the Company purchased additional jet fuel hedging options to the amount of $7.5 million ($0.5 million of which in Q2 2011).

Note 9 - Loans from Banking Corporations

a. Ratio of Loan Balance to Guarantees

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

b. In May 2011 the Company signed a loan agreement to finance the purchase of an aircraft to the amount of $14.5 million; for additional details see Note 7.f.

c. In June 2011 the Company signed a loan agreement to finance the purchase of a spare engine to the amount of $3.9 million; for additional details see Note 7.h.

Note 10 - Legal Proceedings

a. As of June 30 2011, claims filed against the Company amounted to a total of $159 million, for which the Company listed a $13.7 million provision in its Financial Statements, based on the opinions of the Company's legal counsel.
Legal claims not 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 aforementioned claims in excess of the above provisions recorded in the Financial Statements.

b. Following Note 27.c.c.(8) to the December 31 2010 Financial Statements regarding High Court of Justice proceedings filed by the City of Holon against the permit received by the Company to conduct takeoffs during certain hours of the night between Thursday and Friday and on the nights before holiday eves (in spite of the existence of a general restriction on takeoffs during nighttime hours). On March 29 2011 a ruling was issued in which the Supreme Court rejected the petition against the Company and the other respondents (the Minister of Transportation and Road Safety, the Minister of the Environment, the Airports Authority and the Civil Aviation Authority).

c. Following Note 27.c.b.(3) to the 2010 Financial Statements regarding a civil suit on the subject of air cargo transportation service rates, the sum of the provision for the suit was increased, this among other reasons in light of talks with the plaintiffs and following an update the Company received from its legal counsel regarding the scopes of the settlements between the plaintiffs and other airlines.

d. On May 15 2011 Company’s main office received a motion to approve a claim as a class action (hereinafter: “the Motion”), which was filed against the Company in the Tel Aviv District Court on May 9 2011. The motion was filed by a Company passenger, whose flight had been cancelled on May 5 2011 following the contamination found in the jet fuel.
In the motion, the sum of the claimant's personal claim was set at a total of 5,000 NIS and the general damage estimated by the claimant for the entire group consisting of all of the purchasers of flight tickets from the Company whose flights had been cancelled under the circumstances in question (estimated by the claimant at some 2,500 passengers) amounted to 12.5 million NIS for the entire group. The Company is studying the motion.

e. On May 30 2011 Company's main office received a motion to confirm a claim as a class action (hereinafter: “the Motion”), which was filed before the Haifa District Court. This motion was based on the plaintiff's argument according to which the Company is overcharging cancellation fees for off-site transactions at a rate exceeding the maximum rate permitted in accordance with the Consumer Protection Law. The motion did not note a precise sum for the class action, but the plaintiff noted that he estimated the sum of the claim at “tens of millions of shekels at the least”.
The Company is studying the motion and will act to file its response to the Court.

f. Regarding other material legal proceedings pending against the Company, see Note 27c to the December 31 2010 Financial Statements.

Note 11 - Transactions and Commitments with Subsidiaries

1) As stated in Note 1d, the Company did not include separate financial information in its report for the period ending June 30 2011 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, this as a result of regulatory 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 the reasonable investor with additional material information.

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2) The Company has entered into agreements with its subsidiaries as detailed below:

a. Activity between the parent company and its subsidiaries:

Company	Type of Activity	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30		For the Year Ending December 31
		2011	2010	2011	2010	2010
		Thousands of Dollars		Thousands of Dollars		Thousands of Dollars
Sun D'Or	Leasing aircraft and associated services	30,274	33,228	14,809	16,828	78,573
	Commissions	477	530	187	322	878
TAMAM	Purchasing food for Company flights at BGN	11,613	9,937	6,300	5,483	21,519
Borenstein	Purchasing food for Company flights from New York	3,241	3,215	1,857	1,789	5,990
	Dividends	-	-	-	-	20
	Managements fees	69	56	33	28	184
	Interest from parent company (1)	30	30	15	15	60
Superstar	Sale of flight tickets and ground arrangements	5,480	5,286	2,955	2,342	10,547
Katit	Purchasing food for employees and food services in the King David Lounge in Terminal 3	1,627	1,429	837	732	3,064

Company	Type of Activity	Investment Account As of June 30		Investment Account As of December 31	Credit and Debit Account As of June 30		Credit and Debit Account As of December 31
		2011	2010	2010	2011	2010	2010
		Thousands of Dollars		Thousands of Dollars	Thousands of Dollars		Thousands of Dollars
Sun D'Or	Leasing aircraft and associated services	3	3	3	4,019	8,225	9,631
TAMAM	Purchasing food for Company flights at BGN	504	1,287	756	4,252	5,651	3,641
Borenstein	Purchasing food for Company flights from New York	4,870	4,629	4,491	739	716	178
	Loan to parent company (1)	-	-	-	2,600	2,600	2,600
Superstar	Sale of flight tickets and ground arrangements	(178)	(54)	(65)	145	526	104
	Loan from parent company (2)	504	308	488	-	-	-
Katit	Purchasing food for employees and food services at the King David Lounge in Terminal 3	-	-	-	1,152	1,093	1,221

(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. In October 2010 the Company provided an additional £110,000 loan. The two loans have no repayment date and bear no interest.

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b. Mutual activity between subsidiaries:

Companies	Type of Activity	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30		For the Year Ending December 31
		2011	2010	2011	2010	2010
		Thousands of Dollars		Thousands of Dollars		Thousands of Dollars
TAMAM-Katit	Food purchasing	14	22	6	8	34
Superstar-Sun D'Or	Flight Ticket Purchasing	1,495	1,845	490	933	3,494

Companies	Credit and Debit Account As of June 30		Credit and Debit Account As of December 31
	2011	2010	2010
	Thousands of Dollars		Thousands of Dollars
TAMAM-Katit	12	13	10
Superstar-Sun D'Or	583	1,320	428

Note 12 - 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.

Passenger aircraft activity includes revenues from the transport of passengers including baggage, transporting cargo in the belly of passenger aircraft, mail transport as well as the contribution from the sale of duty free products.

Cargo aircraft activity includes revenues from airborne cargo shipping fees.

The Company’s other activities include revenues leasing aircraft and providing and associated services to subsidiary Sun D'Or (which are written off in the "Adjustments" column), revenues from maintenance service provided to outside elements as well as a broad variety of services and revenues such as equipment leasing, frequent flyer membership fees, loading and unloading services and more.

The Company's chief operational decision maker does not receive reports regarding measurement of segment assets and therefore, in accordance with the revision to IFRS-8, this information is not included in the segment reports.

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b. Analysis of revenues and results according to operating segments:

	For the Six Month Period Ending June 30 2011				
	Passenger Aircraft	Cargo Aircraft	Others	Adjust-ments	Total
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
			(Unaudited)		
Revenues					
Revenues from outside customers	845,063	54,354	22,466	33,790	955,673
Inter-segment revenues	-	-	30,073	(30,073)	-
Total segment revenues	845,063	54,354	52,539	3,717	955,673
Segment results	36,734	(297)	14,919	-	51,356
Unassigned expenses					(128,032)
Loss from regular activities					(76,676)
Financing expenses					(10,608)
Financing income					12,345
The Company's share of the profits of subsidiaries, net of tax					880
Loss before income taxes					(74,059)
Tax benefit					11,415
Loss for the period					(62,644)

	For the Six Month Period Ending June 30 2010				
	Passenger Aircraft	Cargo Aircraft	Others	Adjust-ments	Total
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
			(Unaudited)		
Revenues					
Revenues from outside customers	* 832,704	39,499	20,494	32,865	925,562
Inter-segment revenues	-	-	33,230	(33,230)	-
Total segment revenues	832,704	39,499	53,724	(365)	925,562
Segment results	94,016	(868)	14,513	-	107,661
Unassigned expenses					(97,373)
Income from regular activities					10,288
Financing expenses					(16,372)
Financing income					3,992
The Company's share of the profits of subsidiaries, net of tax					-
Loss before income taxes					(2,092)
Tax benefit					402
Loss for the period					(1,690)

(*) Restated - see Note 5

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	For the Three Month Period Ending June 30 2011				
	Passenger Aircraft	**Cargo Aircraft**	**Others**	**Adjust-ments**	**Total**
	Thousands of Dollars (Unaudited)				
Revenues					
Revenues from outside customers	479,057	23,589	10,560	17,293	530,499
Inter-segment revenues	-	-	14,610	(14,610)	-
Total segment revenues	479,057	23,589	25,170	2,683	530,499
Segment results	38,971	(1,196)	6,580		44,355
Unassigned expenses					(67,526)
Loss from regular activities					(23,171)
Financing expenses					(7,502)
Financing income					8,016
The Company's share of the profits of subsidiaries, net of tax					145
Loss before income taxes					(22,512)
Tax benefit					2,804
Loss for the period					(19,708)

	For the Three Month Period Ending June 30 2010				
	Passenger Aircraft	**Cargo Aircraft**	**Others**	**Adjust-ments**	**Total**
	Thousands of Dollars (Unaudited)				
Revenues					
Revenues from outside customers	* 455,008	21,455	9,054	16,855	502,372
Inter-segment revenues	-	-	16,663	(16,663)	-
Total segment revenues	455,008	21,455	25,717	192	502,372
Segment results	62,005	78	6,386	-	68,469
Unassigned expenses					(43,466)
Income from regular activities					25,003
Financing expenses					(8,449)
Financing income					3,190
The Company's share of the profits of subsidiaries, net of tax					-
Profit before tax on income					19,744
Taxes on income					(4,902)
Income for the period					14,842

(*) Restated - see Note 5

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	For the Year Ending December 31 2010				
	Passenger Aircraft	Cargo Aircraft	Others	Adjust-ments	Total
	Thousands of Dollars (Audited)				
Revenues					
Revenues from outside customers	1,765,282	87,508	38,790	80,659	1,972,239
Inter-segment revenues	-	-	78,573	(78,573)	-
Total segment revenues	1,765,282	87,508	117,363	2,086	1,972,239
Segment results	251,825	(264)	28,573	-	280,134
Unassigned expenses					(192,091)
Income from regular activities					88,043
Financing expenses					(35,911)
Financing income					10,849
The Company's share of the profits of subsidiaries, net of tax					45
Profit before tax on income					63,026
Taxes on income					(5,971)
Yearly profit					57,055

Note 13 - Events Subsequent to the Balance Sheet Date

a. Following that detailed in Section 17d of the December 31 2010 Financial Statements, regarding a petition to the High Court of Justice on the subject of security expenses, filed by the Company in 2008 regarding Government resolutions passed in 2008, on July 11 2011 the Court approved the Company’s request to dismiss the petition with no payment of expenses, after the Company announced that talks were being held with the State on the matter of Israeli airline security issues and that in the event that the talks in question do not come to fruition, the Company will consider filing a petition in principle regarding the State's obligation to provide security for Israeli airlines and their passengers at its own expense.

On August 3 2011 the Company signed an understanding with the State of Israel, which is designed to arrange, if and when it comes into effect, the activity of the Israeli aviation security array.

The understanding mainly refers to a gradual increase in the State’s participation in the security expense burden of Israeli airlines, from 60% (the current rate) to 65% (in 2011), 70% (in 2012), 75% (upon the signing of the open sky agreement with the European Union) and 80% upon the implementation of the open sky agreement (as agreed upon in the understanding).

Whether the understanding comes into effect is dependent on the passing of a Government resolution. Submittal of the understanding to the Government for a resolution, as noted, is subject to the signing of an additional agreement between the Company and the Foreign Ministry and the Office of the Prime Minister which shall arrange, among other things, the employment of aviations security employees and which shall be subject to the approval of the Ministry of Finance.

Insomuch as the Government approves the understanding, the understanding shall remain in effect until the end of 2017. If the Government does not pass a resolution approving the understanding in question by the end of 2011, the understanding shall no longer remain in effect.

b. Subsequent to the report date, the Company altered part of the structure of its hedging agreement by moving from hedging via purchase option to hedging via cylinder, through the writing of appropriate sales options in terms of scope and duration. These transactions will not be recognized as hedging transactions in the Financial Statements.

c. In July 2011 the Company signed an agreement with International Lease Finance Corporation to lease a 767-300ER aircraft (EAM), manufactured in 1998, starting November 2011, for a lease period of 6 years. The lease shall be classified as an operational lease in the Financial Statements.

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d. In July 2011 the Company signed an agreement with a banking institution for a $14 million loan. According to the agreement, credit was extended for an additional year until April 2012, with the parties determining the terms of the redeployment of the uncleared balance remaining in April 2012 over the course of this period. The change in terms did not have a material impact on the Company's operating results. This sum is presented in the June 30 2011 Financial Statements under Current Liabilities in the Short-Term Borrowing and Current Maturities item.

e. On July 31 2011 Company's main office received a motion to approve a claim as a class action, filed against the Airports Authority, the Company, Israir Aviation and Tourism Ltd., Arkia Israeli Airlines Ltd. and the General Security Services, at the Nazareth District Court. The subject of the motion is the plaintiff's claim that Israeli Arabs, while departing and/or arriving at Israel, are discriminated against due to the unique security screening they undergo. The personal sum of each plaintiff's claim amounts to 100,000 NIS. The number of potential plaintiffs is estimated by the plaintiffs at one million Arab citizens. The Company is studying the motion and will act to file its response to the Court.

f. The redemption date of a loan from a banking institution, as it is today ($157 million), will arrive in July 2013 to the amount of $120 million. In August 2011 the Company approved an agreement with the banking institution according to which the balance of the loan, including principal payments remaining until the original repayment date, shall be spread out across a period of 6 years from the signing date. A $53 million balloon balance shall remain at the end of this period. The loan is in USD and bears variable Libor interest plus a margin. Principal and interest payments are quarterly payments. This sum is presented in the June 30 2011 Financial Statements under Current Liabilities in the Short-Term Borrowing and Current Maturities item and Non-Current Liabilities in the Loans from Banking Corporations item.

g. On August 2 2011 the Company announced that starting November 2011 it would be discontinuing its direct flights to Sao Paolo, this after examining the economic and commercial viability of operating the route in light of the sharp and continuing rise in fuel prices and the increase in operational and security expenses.

h. The repayment date of a loan from a banking organization to the amount of $60 million will fall in August 2011. This sum is presented in the June 30 2011 Financial Statements under Current Liabilities in the Short-Term Borrowing and Current Maturities item. On August 4 2011 the Company signed an agreement with the banking institution according to which a follow-up loan would be provided in lieu of the existing $50 million US loan. The loan shall be spread out across a 6-year period, shall be paid in semiannual principal and interest refunds and shall bear interest of LIBOR plus a margin.

i. In late August 2011, the Company is expected to return a leased 757-200 airplane (EBS) to its owners (MK Aviation).