

EL AL ISRAEL AIRLINES LTD.

FINANCIAL STATEMENTS

AS OF MARCH 31, 2010

(unaudited)

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Update to Chapter A (Description of the Corporation's Business)¹
to the 2009 Periodic Report ("Periodic Report")
of EL AL Israel Airlines Ltd. ("the Company")

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

General

The Group's Concise Consolidated Financial Statements (hereinafter: "the Interim Financial Statements") have been prepared in accordance with IAS 34, "Interim Financial Reporting" (hereinafter: "IAS 34").

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, 2009 and the year ending on that date.

Section 3.4 – Changes in Interested Parties' Holdings

On April 4, 2010, Lenders' Assets Ltd. (hereinafter: "Lenders' Assets"), a company controlled and owned by Yehuda (Yudi) Levi, Esq.² and his wife, announced that it had become a Company interested party as a result of the purchase of 500,000 shares on the stock exchange. As of May 20, 2010, Lenders' Assets holds approximately 0.15% of the Company's issued and paid-off stock capital.

The Ginsburg Group (Y. Hillel & Co. Ltd., a company fully owned by Mr. Pinchas Ginsburg, a Company director, along with individuals of the Ginsburg family) carried out several stock purchasing activities in March-May 2010. As of May 20, 2010, the Ginsburg group holds approximately 7.82% of the Company's issued and paid-up stock capital.

Mrs. Tamar Moses Borowitz, Deputy Chairperson of the Company and a controlling shareholder of Knafaim and the Company, carried out several stock actions in March-April 2010. As of May 2010 Mrs. Borowitz holds approximately 0.20% of the Company's issued and paid-up stock capital.

Section 6.1 – Movement in the International Aviation Industry and Section 7.1.3 (a) – Changes in the Extent of Activity in the Field and its Profitability – International Developments

In the first quarter of 2010, international passenger and cargo traffic continued to recover. According to IATA numbers, this quarter saw an 8.6% increase in international passenger traffic and a 27.8% increase in worldwide airborne cargo shipping relative to the corresponding period last year.

¹ This update is in accordance with Regulation 39a of the Securities Regulations (Periodic and Immediate Reports) 5730-1970 and includes material changes or additions which have occurred in the corporation's business on any matter which is to be described in the periodic report. The update refers to item numbers in Chapter A (Description of the Corporation's Business) in the Group's 2009 annual report.

² Yehuda (Yudi) Levi, Esq., serves as Deputy Company Chairman and is considered a controlling shareholder at Knafaim and the Company.

Airlines increased capacity by only approximately 1.6% and therefore an improvement was listed in the weighted load factor for passenger flights which as of this quarter amounted to 76.6% compared to 71.6% in the first quarter of 2009.

Note that the significant increase in international passenger traffic, airborne cargo shipping and load factor derives from the comparison with the corresponding quarter of 2009, which was influenced dramatically by the global financial crisis.

By Regional Cross- Section: Q1 2010 Vs. Q1 2009: [This should be changed to an English table]

מטען		נוסעים			אזור
AFTK	FTK	PLF	ASK	RPK	
שינוי שנתי	שינוי שנתי			שינוי שנתי	שינוי שנתי
7.4%	34.6%	67.0%	8.2%	10.4%	אפריקה
11.1%	35.9%	78.6%	0.3%	10.5%	אסיה
-6.6%	10.3%	75.7%	-0.6%	4.3%	אירופה
22.2%	40.3%	77.0%	1.4%	8.2%	דרום אמריקה
17.0%	34.0%	75.1%	15.8%	25.0%	מזרח תיכון
-3.0%	31.6%	78.4%	-1.5%	5.0%	צפון אמריקה
4.0%	27.8%	76.6%	1.6%	8.6%	סה"כ

The aviation market is also influenced by special events, such as epidemics and natural disasters around the world. Pursuant to the Company's reports regarding the eruption of the volcano in Iceland and the diffusion of volcanic dust through European skies, commencing April 15, 2010 most European airports gradually closed to air traffic, in accordance with European aviation authority directives. European airspace was virtually completely closed for 6 days with thousands of flights cancelled a day. In addition, restrictions were placed on takeoffs, landings and aviation traffic in and around Europe. These events caused financial damage to the global economy and to the aviation industry in particular. According to IATA estimates European airlines lost at least \$1.7 billion as a result of the volcanic dust cloud.

In this regard note that most of the flights between Israel and Europe were also cancelled at that time, with the exception of a handful of flights operated mainly to destinations in the south of Europe.

The events in question also had an impact on the Company's European activities and led to the cancellation of dozens of flights to various European destinations. The Company continued with its usual activity to destinations in America, Asia and South Africa and reinforced its flights to European airports open for traffic.

Disruptions to flights to various European destinations also occurred in May as a result of these events, though on a smaller scale.

In light of the brief duration of the events, the Company estimates that the events will have no material impact on its business results.

Section 6.2 – Movement in the Israeli Aviation Industry and Section 7.1.3 (b) – Changes in the Extent of Activity in the Field and its Profitability – Israeli Developments

According to data provided by the Central Bureau of Statistics, the first quarter of 2010 saw 667,000 airborne Israeli departures, a 21% increase relative to the same quarter last year. Additionally, this quarter saw 503,000 airborne tourist arrivals (LLBG and Eilat), a 33% increase relative to the same period last year.

In this regard note that the first quarter of 2009 was influenced by the events of Operation Cast Lead and the global economic crisis. Additionally, the number of Israeli departures and tourist arrivals was influenced by the fact that the Passover holidays fell in late March this year (Q1), rather than in April, as they did last year. Relative to the first quarter of 2008, airborne Israeli departures increased by 6% and airborne tourist arrivals (including 1-day visitors) increased by 10%.

According to IAA data, total international passenger traffic through LLBG increased by 22% in Q1 2010 relative to Q1 2009, equivalent to an approximate 5% increase relative to Q1 2008. The average load factor for passenger flights was approximately 77.8% compared to 69.6% in Q1 2009 and 79% in Q1 2008.

Section 6.3 – Fluctuations in Jet Fuel Prices, and Section 9.5.1 – Raw Materials and Fuel Suppliers

The quarter ending March 31, 2010 saw an approximate 52% increase in jet fuel market prices in the Med region relative to the same quarter last year. The effective average jet fuel price paid by the Company rose, after hedging activity, by approximately 12.4% relative to the same quarter last year. In the reported period, fuel costs constituted approximately 30.7% of operating revenues (in the first quarter of 2009 fuel costs constituted approximately 31% of operating revenues). The following data refers to jet fuel prices in the Med region, as quoted by Platts³. For further details, see Section 1b of the Board of Directors Report.

As of March 31, 2010 the Company held an inventory of jet fuel purchased from suppliers in Israel and abroad worth approximately \$8.8 million.

Section 6.4 – Fluctuations in Foreign Currency Rates

As of March 31, 2010, the value of the NIS against the USD rose by 1.6% relative to December 31, 2009, and by 11.3% relative to March 31, 2009. For further details, see Section 1b of the Board of Directors Report.

Section 6.5 – Interest Rate Fluctuations

The average 3-month Libor rate dropped by 79.3% in the quarter ending March 31, 2010 relative to the same quarter last year. For further details, see Section 1b of the Board of Directors Report.

³ To the best of the Company's knowledge, Platts is a member of the McGraw-Hill Group which has provided information on 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.

1. Passenger Aircraft Activity

Section 7.1.4 - Developments in Markets in the Field of Activity, or Changes in the Characteristics of its Customers, Section 7.1.10 - Structure of Competition in the Field of Activity and Changes Occurring Therein, the Open Sky Policy – Implementation of the Open Sky Policy, Section 7.2 – Services in the Field of Activity

The following is a description of the main changes due to the Ministry of Transportation's Open Skies Policy:

Open Skies Agreement with the European Union – A fourth round of talks was held in Israel between the parties in the beginning of May 2010, as a further step towards signing a global aviation agreement between Israel and the EU, which is expected to replace the agreements existing today between Israel and each individual EU member. This agreement is expected to allow airlines on either side to operate in an unlimited fashion between the nations, both in terms of flight frequencies, number of carriers and offered seat capacity.

Open Skies Agreement between Israel and the U.S. – A new aviation agreement was signed between Israel and the U.S. in April 2010. The new agreement is expected to expand the previous agreement, but still requires ratification by both countries and will come into effect only after Israeli civil aviation safety restores Israel's FAA Category 1 rating. The new agreement, like the previous one, does not limit the number of airlines allowed to fly between the U.S. and Israel. The importance of the new agreement is that it will also allow the signing of code sharing agreements with third party countries on routes between Israel and the U.S. In addition, the new agreement will not limit the number of U.S. destinations to which Israeli airlines are allowed to arrive.

Also note that United Airlines and Continental Airlines announced a merger in May 2010, which is expected to make them the world's largest airline. Completion of this merger is subject to various approvals in the U.S.

The merger is also expected to impact the Israeli aviation market and lead to intensifying competition on direct U.S. routes, after the merged airlines begin operating flights from other destinations.

Greece – In April 2010 Israel and Greece signed a new aviation agreement allowing additional Israeli and Greek airlines to operate direct flights between the nations. The new agreement will allow each country to appoint two airlines to operate direct flights on each route between Israel and Greece. The agreement will allow airlines from both nations to operate up to 28 weekly flights on the Tel Aviv-Athens route (14 per side), compared to 14 weekly flights to date. In addition, the agreement was expanded to additional Greek destinations and an agreement was reached to operate 14 weekly cargo flights between the countries. As noted, in January 2010 Greek airline Aegean Airlines, which had won a tender to operate the Tel Aviv-Athens route, replaced Olympic Airlines, which had operated regular flights on that route until that date. Recently both Greek airlines have initiated talks regarding their merger with each other.

Ukraine - Pursuant to the new aviation agreement signed between Israel and Ukraine in February 2010, allowing the appointment of a third designated carrier for the Tel Aviv-Kiev route, Ukrainian National Airlines began operating five weekly flights on the

Kiev-Tel Aviv route in May 2010. This airline joins Aerosvit and DonbassAero on this route.

On the Israeli side, the Minister of Transportation permitted Israir to operate scheduled flights on the Kiev-Tel Aviv route in addition to the Company and Arkia. Israir has yet to begin operating this route. In addition, Arkia was permitted to operate scheduled flights between Eilat and Kiev.

Additionally, the Ministry of Transportation granted permission to Sun D'Or to operate direct flights to Riga (Latvia) instead of Israir, which had failed to make use of its right to operate scheduled flights on this route.

Following its appointment as designated carrier for this route, Sun D'Or announced its intention to operate scheduled flights to Minsk starting in June 2010.

Germany - Pursuant to the new aviation agreement signed between Israel and Germany in January 2009 and pursuant to the redistribution of routes between German companies, Lufthansa added a fifth weekly flight to the Tel Aviv-Munich route starting late April 2010, and Air Berlin, which replaced Hapag-Fly, began operating 7 weekly flights from various German locations (2 from Munich, 3 from Berlin and 2 from Cologne) starting April 2010, and Air Berlin is expected to add 2 flights to the Tel Aviv-Dusseldorf route starting in July. Additionally, in late March 2010, German Wings, a Lufthansa subsidiary, began operating flights on the Tel Aviv-Cologne route.

Spain - In May 2010 Spanish airlines Spanair and Vueling began operating scheduled flights on the Tel Aviv-Barcelona route.

In total, scheduled foreign airlines increased their capacity by approximately 8% and their passengers by 29% in the first quarter of 2010 relative to the first quarter of 2009. Relative to the first quarter of 2008 scheduled foreign airline capacity increased by 19% and passengers increased at a similar rate (18%).

The Group increased its seat capacity by approximately 8% and its passenger traffic by approximately 14% in the first quarter of 2010 relative to the first quarter of 2009. Relative to the first quarter of 2008 the Group's seat capacity decreased by 1%, and accordingly, a slight decrease (-1%) was noted in Group passenger traffic.

Section 7.2 - Services in the Field of Operations - Continued

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

In total, passenger traffic through LLBG increased 22% relative to the first quarter of 2009 and 5% relative to the first quarter of 2008. Passenger traffic in the first quarter of 2010 was divided between the airlines as follows: El Al and Sun D'Or – 40.2%; other scheduled airlines – 53.8%; charter airlines – 6%.

Western European Routes

Western European routes saw a 22% increase in total passenger traffic in the first quarter of 2010 relative to the same period last year, equivalent to a 6% increase over 2008. Among scheduled foreign airlines, passenger traffic increased by 25% and seat capacity increased approximately 3%.

The airlines' load factor was approximately 77.5% compared to just 63.9% in the first quarter of 2009. Relative to the first quarter of 2008 (before the impact of the economic crisis was felt), foreign airlines increased their capacity by 12% and their passenger

numbers increased at a similar rate (13%).

Note that in Western European routes, foreign charter flights reduced their seat capacity by approximately 9% while their passenger numbers remained essentially unchanged (-1%). At the same time, relative to the first quarter of 2008 a significant increase (62% in seat capacity and 56% in passenger numbers) occurred in foreign charter activity on Western European routes.

The Group increased its seat capacity by approximately 8% in the first quarter of 2010 and listed an increase of approximately 16% in passenger traffic. Compared to the first quarter of 2008, no material change occurred to the Group's passenger numbers (-1%).

The Group's average load factor in Q1 2010 was approximately 83.1% and its share of total passenger traffic in this route network was 41.4%.

Routes to Central and Eastern Europe

Routes to Central and Eastern Europe listed an approximate 28% increase in the seat capacity of scheduled foreign airlines and a 72% increase in passenger traffic. The average load factor increased to approximately 72.3% in the first quarter of 2010 compared to 53.8% in the first quarter of 2009. Relative to the first quarter of 2008 the scheduled airlines increased their seat capacity by approximately 19% and their passenger numbers by 24%.

At the same time, foreign charter companies reduced their activity on these route by a significant rate (a 26% drop in seat capacity relative to 2009 and 27% relative to 2008) and listed a significant drop in the extent of passenger traffic on these routes (a 22% drop relative to 2009 and 32% relative to 2008).

The Group did not make any material changes to its seat capacity (-1%) and listed a moderate 2% increase in passenger traffic on these routes. Relative to 2008 the Group increased its seat capacity by 22% and listed a 14% increase in passenger traffic. The increase in the Group's activity in this route network is mainly due to the increase in Sun D'Or activity on these routes and in particular on routes to Poland.

In total passenger traffic on this route network increased 26% in Q1 2010 relative to the same quarter last year (an approximate 19% increase relative to Q1 2008). The Group's market share in this route network in the first quarter of 2010 reached 37%.

Routes to the CIS

Scheduled foreign airlines reduced their seat capacity on these routes by 4% relative to the first quarter of 2009 while their passenger traffic increased by 17% and their load factor reached 62% compared to 50.8% in the first quarter of 2009 (relative to the first quarter of 2008, seat capacity increased 16% and passenger traffic increased 20%). During this period, the Group (El Al and Sun D'Or) increased the number of seats offered in this route network by approximately 14% and their passenger numbers by approximately 32% relative to the same period last year. Relative to 2008 the Group increased its seat capacity by a moderate 2% and listed a 3% increase in passenger traffic on these routes. The Group's share of passenger traffic on these routes in Q1 2010 was approximately 33.5%.

Transatlantic Routes

An approximate 5% increase in passenger traffic on transatlantic routes was listed in this quarter. Relative to the first quarter of 2008, no change occurred in the number of passengers in this route network. In total the seat capacity of foreign airlines operating on these routes increased by approximately 13%, as a result of the entry of U.S. Airways into the Tel Aviv-Philadelphia route starting July 2009.

In the first quarter of 2010 the Company reduced its seat capacity in this route network by approximately 4% and listed an approximate 6% decrease in passenger traffic. Relative to 2008 the Company reduced its capacity by 14% (due to the discontinuation of activities on the Miami route starting September 2008) and its passenger numbers dropped similarly.

East Asian Routes

An approximate increase of 21% occurred in passenger traffic on these routes in January-March 2010 and seat capacity in this route network increased by approximately 7%. Relative to the same period in 2008, passenger traffic increased approximately 6% and no change occurred in total seat capacity on these routes. The Company increased its seat capacity on East Asian routes by approximately 7% and listed an approximate 13% increase in passenger traffic. Relative to Q1 2008, the Company decreased its seat capacity by 16% and its passenger traffic dropped by 9%.

Regional Network

An approximate 59% increase in passenger traffic was listed in this route network along with an approximate 34% increase in seat capacity relative to the first quarter of 2009.

The dramatic increase in the scope of traffic in this route network is mainly due to the recovery of traffic to Turkey (+64%). At the same time, the scope of traffic to Turkey is still 21% lower than in the first quarter of 2008.

In this period the Company operated routes to Cairo and Greece only and increased its activity on these routes. On the route to Cairo the Company added a third weekly flight and the Company's passenger numbers increase significantly (275%) relative to Q1 2009 (a 166% increase over 2008). On the Athens route the Group increased its passenger numbers by 67% in Q1 2010 relative to the same quarter last year (an approximate 3% increase over 2008). The Group's share of this route network is only 7.9%.

In total the Group increased its seat capacity in this route network by 47% relative to the first quarter of 2009, equivalent to a 33% increase over the first quarter of 2008, and the Group's passengers on this route network doubled (+108%) relative to Q1 2009, a 39% increase in Group passenger numbers relative to Q1 2008.

Section 7.1.5 – Technological Changes that May have a Material Impact on the Field of Activities

The Company has launched a new development allowing travel agents to see ticket details on their computer screens, print them out and send them by email. Travel agents wishing to view a flight ticket will be asked to use their IATA number or order code. Until now, reservation ticketing took place at agent service centers. The new system will allow transparency and will contribute to the agent's independence and improve passenger service.

The Company is currently completing its transfer to the Amadeus check-in system. The check-in system is the third module in a system containing and constituting an integral part of the Company's inventory management and reservation module. The application was installed in a gradual fashion in El Al stations in Israel and abroad. Alongside the system's implementation, the online check-in system was improved, allowing self-check-in with the new system.

Sun D'Or has launched a check-in service on its website for customers reserving tickets online or at the direct sale location.

In addition, online collaboration was expanded, including travel insurance sales options

as part of the reservation site and the option of paying for surplus baggage weight online. The Company has begun to develop various iPhone applications, including some for use in flight registration.

Starting January 2010, the Company has been operating a CO₂ emissions monitoring and tracking system on Company aircraft in order to comply with EU guidelines. The system, employing advanced technology, collects data from various sources (messages and files both from the ground and from Company aircraft) and concentrates it into a single database, and features a tool for controlling and analyzing this data.

Pursuant to that stated in the 2009 Financial Statement regarding the cancellation of the agreement for the implementation of the ERP, the Company has been conducting talks with IBM since March 2010 in an attempt to resolve the financial dispute due to the cancellation of the agreement, including the matter of the Company's purchase of rights to interim products created by the project's discontinuation, cancellation of mutual lawsuits and a resolution of compensation between the parties. For further details see Note 6d to the March 31, 2010 Financial Statements.

Section 7.4 – New Services

Pursuant to the Company's reports regarding the Code Share agreement signed in December 2009 with Turkish airline Atlas Jet, the agreement was approved by the Ministry of Transportation and the Restraint of Trade Commissioner and is expected to enter into effect starting late June 2010.

In March 2010 the first stage of the Code Share agreement signed with Air China came into effect, according to which Air China will place its code on Company flights on the Tel Aviv-Beijing routes.

Section 7.10 – Manufacturing Ability

The Company increased its Available Seat Kilometers (ASK) by 7.1% in the first quarter of 2010 and its Revenue Passenger Kilometers (RPK) by approximately 9.6%. As a result, an approximate 2.5% increase was listed in its weighted load factor to approximately 81.0%, compared to 79.1% in the same quarter last year.

Section 7.11 – Aircraft Fleet in the Passenger Aircraft Field

Pursuant to the Company's reports in the 2009 Periodic Report (Section 7.11(a)(2) of Chapter A – Description of the Corporation's Business and Note 16 to Chapter C - 2009 Annual Financial Statements), due to material changes occurring in the aviation industry since the signing of the agreement with Boeing for the purchase of four 777-200ER aircraft in March 2008 (hereinafter: "the Agreement"), including the global crisis impacting the world's markets, and due to the impact of these changes on the economic, business and financial environment in which the Company operates, and after a reevaluation of the Company's existing fleet of aircraft and necessary adaptations to it, the Company contacted Boeing and Boeing acceded to the Company's request and on April 29, 2010 the parties signed a letter of agreement to cancel the Agreement and set the terms according to which the Company shall be entitled to make use of a sum equal to the advance payments paid as part of the Agreement, as a result of new aircraft purchase transactions in the coming years.

A strong and extensive relationship exists between the Company and Boeing and the cancellation of the Agreement was out of mutual understanding and in light of the good

relationship between the parties.

The Company continues to study its business strategy and its long and short term supply needs, adapting these to general market trends and the Company's needs.

For details see Note 7a of the Financial Statements.

In May 2010 the Company signed a letter of intent with Aviation Capital Group Corp. to extend the lease agreement for a 737-800 aircraft starting November 2010 for an additional 5 years. The agreement features an option to end the agreement after 3 years.

In May 2010 the Company signed a letter of intent with International Lease Finance Corporation to extend the lease agreement for a 737-800 aircraft starting December 2010 for an additional 45 months.

In May 2010 the Company signed a letter of intent with International Lease Finance Corporation to extend the lease agreement for a 767-300 aircraft manufactured in 1997 starting June 2010 for an additional 65 months.

2. Cargo Aircraft Activity

Section 8.1.1 – Structure of the Field of Activity and Changes Occurring Therein

Pursuant to Section 8.1.1 of the Periodic Report, according to the Company's estimates, the Group's share of cargo transport in January-March 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 approximately 31.6%, compared to approximately 35.7% in the same quarter last year.

Section 8.1.2 – Legislative Restrictions, Standards and Special Constraints Applying to the Field of Activity

Pursuant to the Company's reports, on March 28, 2010 the Company signed an agreement for the lease of a Boeing 747-400 aircraft manufactured in 1994 ("the Agreement" and "the Plane", respectively), with an Irish aircraft leasing company. According to the Agreement, the lease period is from the date of the aircraft's receipt (April 2010) until June 30, 2012 with the option (held by the Company) to extend the lease for an additional 36 month period. Note that during the period between April 2010 and the end of June 2010 the leasing fees shall be paid relative to the Plane's operation, in accordance with the commercial understandings achieved between the parties. In addition, pursuant to the agreement the Company was granted the right of first refusal and options to purchase the aircraft, in accordance with the agreements between the parties. For details see Note 6c to the Financial Statements.

Section 8.1.3 (a) – Extent of Global Cargo Transport

According to IATA reports, in January-March 2010 worldwide transportation of cargo (including in passenger aircraft holds) increased by approximately 27.8% relative to the same period last year, an increase in activity at a higher rate than the projected yearly rate according to IATA estimates (3.9%).

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

Airport Authority data indicates that in January-March 2010, cargo traffic through LLBG increased by approximately 17.3% relative to the same period last year.

Section 8.2 – Services in the Field of Activity

In April 2010 the Company entered into an agreement with JDR J.A.M. de Rijk BV (hereinafter: "JDR") for ground transport services of cargo to Europe for a 12 month period with an option to extend it by another period.

JDR was selected as the chief transporter for ground shipping of Company cargo to various European destinations, in addition to managing the Company's transportation desk at Liege.

3. Information on Both Fields of Activity

Section 9.4.2 – Employees

Pursuant to Section 9.4.2 of the Periodic Report, the following is an updated table on the Company's employees:

	March 31, 2010	December 31, 2009
Permanent employees	3,835	3,733
Temporary employees	1,939	2,074
Total employees	5,793	5,807

Section 9.4.7 – Special Collective Agreements

Pursuant to the report in the 2009 Periodic Report regarding the request from the National Histadrut to recognize it as the representative of the pilots as a separate bargaining unit, on May 2, 2010 a verdict was issued stating that the Company's pilots do not represent a separate bargaining unit and that the National Histadrut was not the pilots' representative workers' union.

Section 9.4.16 – Executives and Senior Management

On April 11, 2010 the Company's VP of Operations, Mr. Lior Yavur, announced his resignation. The Company Board of Directors decided to appoint Captain Benjamin Livneh as VP of Operations starting May, 1 2010.

Section 9.8.3 – Credit Frameworks

Non-guaranteed credit frameworks amounted to approximately \$35 million as of March 31, 2010, a sum similar to the frameworks at the Company's disposal on December 31, 2009. These frameworks may be used for any purpose.

Section 9.8.4 Collateral Guarantees

With the drop in jet fuel prices below the price levels defined by hedging agreements with international institutions, the Company was required to provide collateral to guarantee it would uphold the hedging refunds to which it was obligated in accordance with its agreements with said institutions. As of March 31, 2010, the total collateral requirement amounted to approximately \$29.8 million in deposits and letters of credit, and in addition, the hedging institutions provided non-guaranteed frameworks totaling \$29 million. The Company placed liens on assets (aircraft and deposits) to the required extent for banks in Israel and abroad.

Section 9.8.5 – Loans for Unique Use

As of March 31, 2010, the balance of loans from banking corporations, including short term borrowings, amounted to approximately \$809.9 million.

Section 9.11.2 (i) – Limitations and Supervision of the Corporation's Business – Regulatory Arrangements – the Restriction of Business Law 5748-1988.

Pursuant to the Company's reports regarding the framework agreement with Maman – Cargo Terminals and Handling Ltd. ("Maman") and the signing of a letter of agreement by the parties regarding the trust arrangement and the announcement of the Restraint of Business Authority regarding the documents in question, securities allocations as per the framework Agreement have yet to take place.

Section 9.11.12 – Security Arrangements

Pursuant to that stated in the 2009 Periodic Report regarding the Company's requirements on the matter of the responsibility and compensation of the State and Israeli airlines in the matter of flight security, the Company held additional meetings with State representatives and clarified the Company's position on this matter.

In this regard, on May 16, 2010 Arkia filed a motion before the Supreme Court seeking to compel the Company to grant security services to Arkia flights to Aqaba (Jordan) after the Company had not been granted letters of compensation for the services. The Court rejected Arkia's request.

Section 9.14 – Legal Proceedings

In March 2010 a civil suit was filed before the Jerusalem District Court by Mishpacha Newspaper Ltd. and Mishpacha Magazine (2005) Ltd. against a cargo agent and against the Company for a sum of approximately NIS 6.5 million (of which approximately \$980,000 is from the Company), containing claims regarding bills of lading issued for cargo shipments. The Company has listed a provision for this claim in the Financial Statements, based on the advice of its legal counsel.

EI Al Israel Airlines Ltd.
Report of the Board of Directors on the State of the Corporation's Affairs
For the Period Ended March 31, 2010

We hereby present the Report of the Board of Directors on the State of the Corporation's Affairs for the three month period ending March 31, 2010.

While the first quarter of 2009 saw a worsening of the global financial crisis, leading to a decrease in international aviation passenger and cargo traffic, as well as the impact of Operation "Cast Lead", which continued until mid-January 2009, during the first quarter of 2010 the extraction from the financial crisis, beginning late 2009, continued, with a positive impact both on passenger traffic and on air cargo traffic. In addition, the number of Israeli departures and tourist entries was impacted by the movement in the date of the Passover holiday, which fell on late March this year rather than April last year.

Total passenger traffic through Ben Gurion Airport in the first quarter of 2010 amounted to 2.2 million passengers compared to 1.8 million passengers in the first quarter of 2009, a 21.8% increase, while airborne cargo increased by 17.3% from 69.4 thousand tons in the first quarter of 2009 to 81.4 thousand ton in the reported quarter.

The Group flew some 844 thousand passenger legs and 25.3 thousand tons of cargo, a 12.9% and 6.7% increase, respectively, compared to the same quarter last year.

The Company's market share in scheduled and charter flights amounted to 40.2% and the average load factor for the quarter was 81.0% compared to 79.1% in the same quarter last year.

Key exogenous factors impacting the Company's operating results in the reported period compared to the same period last year were: a 52% increase in the average price of jet fuel in the Mediterranean Basin, a 79% average drop in Libor rates and an 8% revaluation of the NIS vs. the USD.

In the first quarter of 2010 the Company saw an operation loss of \$14.7 million compared to an operational loss of \$42.5 million in the comparable period last year. The loss for the reported period amounted to a total of \$16.5 million compared to \$39.8 million in the first quarter of 2009.

In the first quarter of 2010 the Company saw a cash flow from operating activities to the amount of \$53.9 million (a negative cash flow of \$16.2 million in the first quarter of 2009). The Group's cash balances, cash equivalents and short term deposits as of March 31 2010 amounted to \$151.9 million, a \$37.2 million increase relative to balances as of December 31 2009 while equity as of March 31 2010 amounted to a total of \$121.6 million compared to \$123.8 million on December 31 2009.

1. General

1.1 Changes in International Financial Standards (IFRS)

Starting from the first quarter of 2009, the Company has applied in its financial statements, retroactively, changes in accounting policy deriving from the application of new standards and interpretations of International Financial Reporting Standards (IFRS), which came into effect in 2009, including IFRS 8 "Operating Segments", IAS 1 (Revised) – "Presentation of Financial Statements", IFRIC 13 – "Customer Loyalty Plans" and the revision to IAS 19 – "Employee Benefits", in the framework of the IFRS improvements in 2008.

For further details on the standards and the impact of their application to the Group's Financial Statements, see Note 4 to the December 31 2009 Financial Statements.

1.2 The Company and its Business Environment

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

The key activities of the Company and its subsidiaries are the transport of passengers and freight, including baggage and mail, through scheduled flights, and on the matter of the transport of passengers, also on charter flights between Israel and other countries. 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 civil aviation industry, and inbound and outbound tourism, which is characterized by a seasonal nature and strong competition, which is grows stronger in periods of over-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 hold 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) and over 50 foreign airlines that operate scheduled flights, of which 30 are held on a regular basis. Revenues of this segment constituted 89.2% of the Group's total revenues in the first quarter of 2010.

B) **Cargo aircraft activity** – In this segment, the Group transports cargo in cargo aircraft. In the field of cargo transport, the Company competes with 5 airlines operating cargo aircraft, and with most of the scheduled airlines that operate passenger planes that carry cargo in their holds. Revenues of this segment constituted 4.3% of the Group's total revenues in the first quarter of 2010.

The Group has additional revenues that are not allocated to the major segments, accounting for 6.5% of total revenues in the first quarter of 2010.

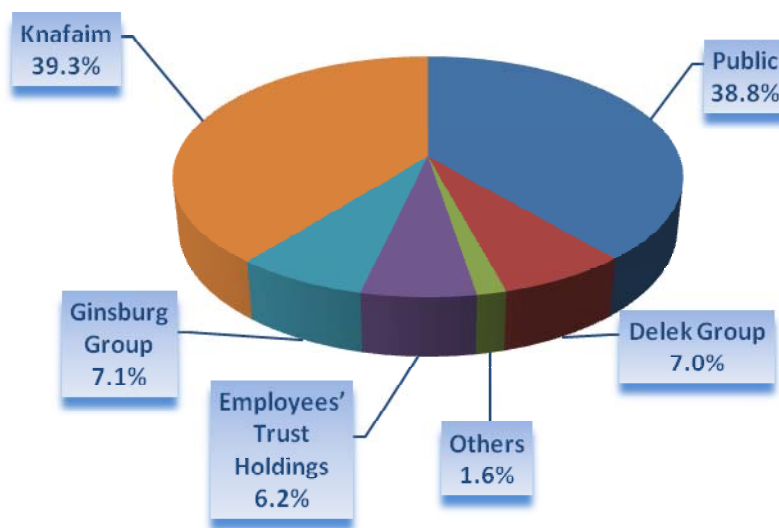
For further information on the Company's fields of activity, see Section a.5 of the Report of the Board of Directors and Note 37 to the December 31 2009 Financial Statements.

1.3 *Holdings of Company Shareholders*

As of March 31, 2010, the holdings in the Company were:

Knafaim Holdings Ltd. ("Knafaim") – 39.3%, the Ginsburg Group – 7.1%, a Company employee corporation called "Holdings in Trust of El Al Employees Ltd." ("Employees Corporation") – 6.2%, Delek Group - 7.0%, others – 1.6%, the public – 38.8%.

Ratio of Holdings in Company Shares on March 31, 2010 (undiluted):



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

a.1 Financial Position (Consolidated Financial Statements)

	31.03.2010 in thousands US dollars	31.12.2009 in thousands US dollars	change in thousands US dollars	
				%
Current assets				
Cash and cash equivalents	143,765	106,687	37,078	35%
Short-term deposits	8,086	7,933	153	2%
Restricted deposits	5,130	7,003	(1,873)	(27%)
Trade receivables	156,913	112,086	44,827	40%
Other receivables	18,143	16,155	1,988	12%
Current derivative financial instruments	13,803	11,206	2,597	23%
Prepaid expenses	30,698	24,873	5,825	23%
Inventories	17,648	21,947	(4,299)	(20%)
Non-current assets				
Long-term bank deposits	1,892	1,839	53	3%
Investment in affiliated companies	648	648	-	0%
Investments in another company	1,350	1,357	(7)	(1%)
Derivative financial instruments	1,386	2,255	(869)	(39%)
Fixed assets, net	1,288,120	1,312,930	(24,810)	(2%)
Intangible assets, net	6,200	7,504	(1,304)	(17%)
Assets due to employee benefits	34,583	34,501	82	0%
Prepaid expenses	2,512	2,578	(66)	(3%)
Total Assets	1,730,877	1,671,502	59,375	4%
Current liabilities				
Short-term borrowings and current maturities	106,486	106,016	470	0%
Trade payables	135,507	128,970	6,537	5%
Other payables	63,802	54,444	9,358	17%
Provisions	58,946	57,217	1,729	3%
Derivative financial instruments	43,498	55,643	(12,145)	(22%)
Employee benefit obligations	96,521	81,379	15,142	19%
Unearned revenues	261,946	204,444	57,502	28%
Non-current liabilities				
Loans from financial institutions	692,903	704,194	(11,291)	(2%)
Employee benefit obligations	66,204	65,835	369	1%
Loans from others	220	-	220	
Other payables	10,532	13,318	(2,786)	(21%)
Derivative financial instruments	16,807	20,135	(3,328)	(17%)
Deferred tax	4,620	5,313	(693)	(13%)
Long-term unearned revenues	51,313	50,813	500	1%
Shareholders' equity	121,572	123,781	(2,209)	(2%)
Total liabilities and equity	1,730,877	1,671,502	59,375	4%

The main changes in asset, liability and shareholders' equity items as of March 31, 2010 compared to December 31, 2009 are:

Current Assets

- An increase in the balance of cash, cash equivalents and short-term deposits, due mainly to a positive cash flow from operating activities, offset mainly by investment in fixed assets and the repayment of long term loans. For further details, see Item 7a below.
- A decrease in restricted deposits in favor of jet fuel hedgers, as a result of hedging agreements, mainly as a result of the repayment of hedging transactions in the reported period.
- The increase in trade receivables, derived mainly from the seasonal increase in passenger sales while cargo sales increased slightly.
- The following changes occurred to the Company's derivative financial instruments presented in the Financial Statements under current and non-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 \$17.2 million increase compared to the fair value at the end of 2009, as a result of transactions reaching redemption, from additional transactions occurring in the reported period and from changes in the fair value of transactions still open on the balance sheet date. The increase in fair value of derivative financial instruments was expressed in a \$14.1 million increase (net after tax) in the capital reserve in respect of cash flow hedges recognized directly in equity, in the \$4.7 increase in the deferred tax liability and the \$1.6 million net increase in fuel and financing expenses in the Statement of Operations. For further details regarding hedging transactions conducted by the Company see b1(3), b1(4) and b1(5) below.

- The increase in the balance of prepaid expenses derives mainly from the increase in advance commissions for flight tickets as a result of the seasonal increase in passenger sales.
- The decrease in inventories largely derived from the decrease in jet fuel reserves.

Non-Current Assets

- Fixed assets decreased mainly due to depreciation costs and the consumption of parts and accessories in the reported period, offset by the purchase of parts and accessories.
- Intangible assets decreased mainly as a result of the erasure of part of the investment in the ERP project. For further details see Note 6.d to the Financial Statements

Current Liabilities

- Trade payable balances increase mainly as a result of the increase in activity.
- Other payables increase mainly as a result of the increase in airport tax liabilities due to the seasonal increase in passenger sales, along with an increase in interest payable expenses.
- Current liabilities due to employee benefits increased mainly as a result of the payment of the December 2009 salary on the 31st instead of on January 1 as it is usually paid over the normal course of business. The payment was pushed forward as a result of the weekend falling near the banks' closing date for the end of the year. In addition, provisions due to the accrual of entitlements to vacation and recovery days increased.
- Unearned revenues increased mainly as a result of a seasonal increase in passenger sales.

Non-Current Liabilities

- The balance of loans from financial institutions decrease as a result of current repayments of loans.

- The decrease in other payables occurred mainly as a result of payment due to signing the settlement for the U.S. cargo claim.

Equity

- The decrease in the Company's shareholders' equity is primarily due to the quarterly loss offset by the increase in the capital reserve for cash flow hedging as a result of the fair value increase hedging agreement recognized as hedging.

As of March 31, 2010, the Company has a working capital deficit of \$372.5 million, compared with a deficit of \$380.2 million on December 31, 2009. The decrease in the working capital deficit is due to the cash balance and trade receivable increase and the decrease in liabilities due to partially-offset financial instruments, mainly due to the increase in employee benefits and unearned revenues.

The working capital deficit is due to the Company's current liabilities, which feature two material elements: prepaid income from the sale of airline tickets including airport taxes and frequent flyer clubs, as well as employee vacation obligations. These elements, which are characterized by a cyclical nature, are included in current liabilities, and essentially explain most of the working capital deficit.

a.2 Analysis of Operating Business Results of El Al

a.2.1 Market Data

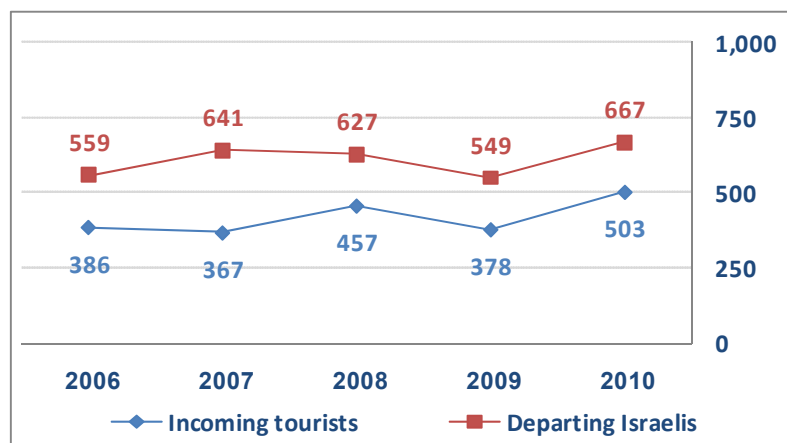
Passenger and cargo traffic at BGA	Jan - Mar 2010	Jan - Mar 2009	change	
	in thousands	in thousands	in thousands	%
Incoming tourists *	503	378	125	33%
Departing Israelis *	667	549	118	21%
Cargo import - tons **	34	29	5	16%
Cargo export - tons **	48	40	7	18%

* Source: Central Bureau of Statistics.

** Does not include cargo in transit.

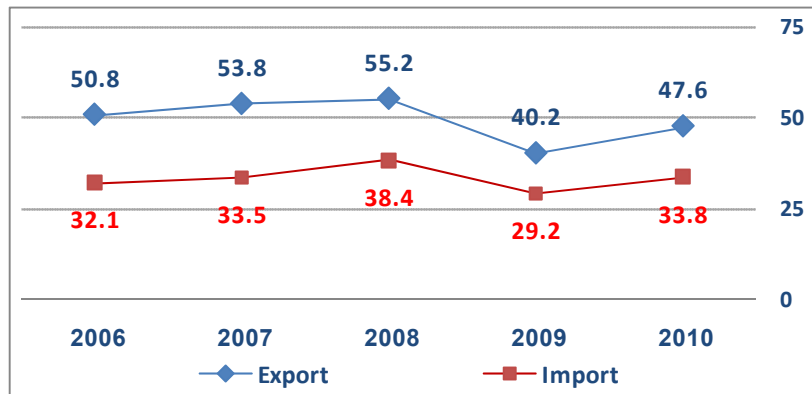
Incoming Tourist & Departing Israeli Traffic, in the First Quarters of:

(In Thousands)



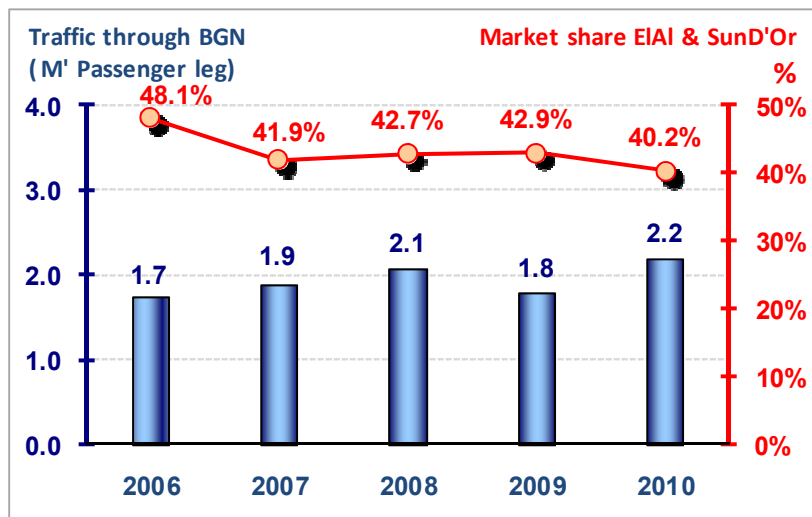
* Source: Central Bureau of Statistics.

Imports & Exports of Cargo by Air to and from Israel, in the First Quarters of:
(In Thousands of Tons)



* Source: Civil Aviation Authority.

Total Traffic through BGN (in Million of Passenger Legs)
and the Market Share of EI Al and SunD'Or (in %) in the First Quarters of:



Source: Civil aviation Authority.

a.2.2 Company Operating Data

	Jan - Mar 2010	Jan - Mar 2009	change
Passenger leg (scheduled and chartered) - in thousands	844	747	13%
RPK (scheduled) - in millions	3,753	3,425	10%
ASK (scheduled) - in millions	4,635	4,329	7%
Load factor (scheduled)	81.0%	79.1%	2%
The Company's market share (scheduled and chartered)	40.2%	42.9%	(6%)
Flown cargo, in thousand tons	25.3	23.8	7%
RTK - in millions	130.1	113.9	14%
Weighted flying hours (including leased equipment) - in thousands (*)	36.2	34.7	4%
<u>Average man-years (EI AL only):</u>			
Permanent	3,810	3,789	1%
Temporary	1,877	1,873	0%
Total	5,687	5,662	0%
Aircraft in operation - end of period - number of units	37	35	2
Average age of owned fleet at the end of the period - in years	12.7	14.0	(1.3)

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.

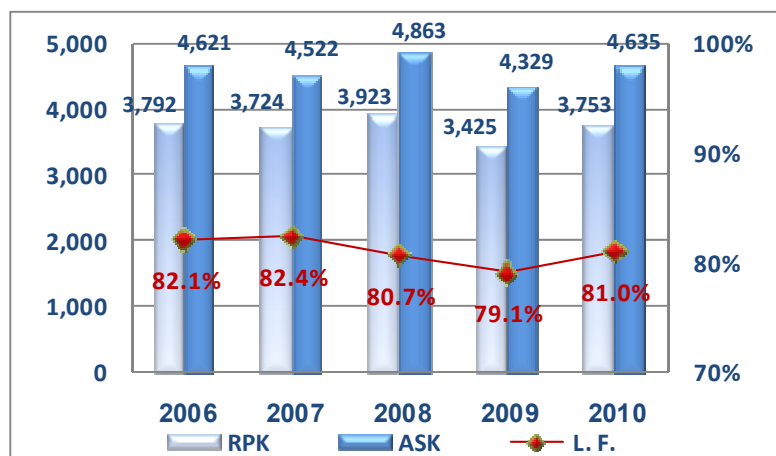
RTK – Revenue Ton Kilometer – weight of paid flown cargo in tons multiplied by distance flown.

Passenger Load Factor (occupancy) – flown passenger-km is expressed as a percentage of available seat-km.

* Weighted flight hours in terms of Boeing 767/757.

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.

Operating Data, for the First Quarter (in Millions):**a.3 Statement of Operations Data For the Quarter Ending March 31 2010 (Consolidated Financial Statements):**

The key factors that influenced the business results in the year ended March 31 2010 compared with the same period last year are:

	Jan - Mar 2010		Jan - Mar 2009		change	
	in thousands US dollars	% of operating revenues	in thousands US dollars	% of operating revenues	in thousands US dollars	%
Operating revenues	420,494	100%	346,667	100%	73,827	21%
Operating expenses	(363,582)	(86.5%)	(327,934)	(94.6%)	(35,648)	11%
Gross profit	56,912	13.5%	18,733	5.4%	38,179	204%
Selling expenses	(45,881)	(10.9%)	(41,405)	(11.9%)	(4,476)	11%
General and administrative expenses	(23,861)	(5.7%)	(21,348)	(6.2%)	(2,513)	12%
Other operating revenues (expenses), net	(1,885)	(0.4%)	1,534	0.4%	(3,419)	
Operating loss before financing	(14,715)	(3.5%)	(42,486)	(12.3%)	27,771	(65%)
Financing expenses	(9,130)	(2.2%)	(7,945)	(2.3%)	(1,185)	15%
Financing income	2,009	0.5%	5,142	1.5%	(3,133)	(61%)
Company's share in earnings of affiliates, net	0	0.0%	(1)	(0.0%)	1	
Loss before income taxes	(21,836)	(5.2%)	(45,290)	(13.1%)	23,454	(52%)
Tax benefit	5,304	1.3%	5,450	1.6%	(146)	(3%)
Loss for the period	(16,532)	(3.9%)	(39,840)	(11.5%)	23,308	(59%)

Operating revenues – operating revenues increased 21.3% compared to the same quarter last year. The increase in passenger's revenues is both from the increase in passenger traffic and the increase in yield per passenger kilometer. Cargo shipping revenues also increased, mainly as a result of the increase in cargo traffic. The Group's other revenues increased, mainly as a result of aircraft leases and maintenance services provided other airlines.

Operating expenses – the first quarter of 2010 saw a 10.6% 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 as detailed below as well as the increase in activity in the reported period. At the same time, the share of operating expenses from turnover decreased from 94.6% in the first quarter of 2009 to 86.5% in the reported quarter, this as a result of the significant increase in revenues as explained above.

Gross profits increased from 5.4% of turnover in the first quarter of 2009 to 13.5% in the reported period.

- Salary expenses in the first quarter of 2010 increased relative to the same period last year. Most of the increase derives in the 8% revaluation of the NIS relative to the dollar, which increased salary expenses and the Company's employer-employee obligations in dollar terms. In addition, salary increased as a result of the increase in activity while the average number of employees remained almost unchanged in the period. 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 in the Med region increased by an average of 52% compared to the same quarter last year, while the Company's effective price after hedging activity increased by 12.4%. In the reported period the Company made \$18.7 million in jet fuel hedging payments, while the change in the fair value of transactions assigned to the statement of operations reduced jet fuel expenses by \$0.7 million (in the first quarter of 2009 jet fuel expenses due to hedging agreements increased by \$38.8 million and decreased as a result of changes in fair value to the amount of \$2.6 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 increased compared to the same quarter last year, mainly as a result of the increase in salary expenses as explained above and the increase in distribution expenses as a result of the increase in activity. At the same time the share of distribution costs from turnover decreased. The rate of sales expenses from turnover also decreased to 10.9% compared to 11.9% of turnover in the same quarter last year.

General and administrative expenses – general and administrative expenses increased relative to the same quarter last year, primarily due to the increase in salary expenses, but at the same time their share of the Company's turnover reached 5.7% compared to 6.2% in the first quarter of 2009.

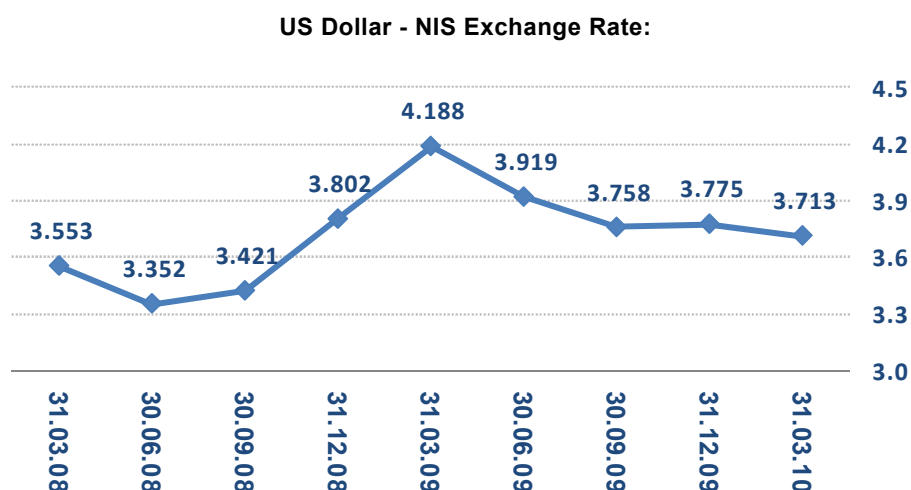
Other expenses, net – in the reported quarter the Company listed other expenses to the amount of \$1.9 million net, mainly as a result of the erasure of an investment in a software module that failed to reach fruition, see Note 6.d of the March 31 2010 Financial Statements. In the first quarter of 2009 the Company listed other income to the amount of \$1.5 million mainly as a result of the change in the dollar value of obligations due to early retirement plans.

Net financing expenses - the increase in financing expenses in the first quarter of 2010 relative to the same quarter last year derives mainly from exchange rate differences as a result of the revaluation of the NIS relative to the USD, while the Company saw income from the exchange rate differences in the first quarter of 2009.

Financing income - a decrease occurred in the Company's financing income. On the one hand this income increased as a result of income due to exchange rate hedging, on the other no exchange rate income was listed as in the same quarter last year. As for interest rate and exchange rate hedging, see b.1.(4) and b.1.(5) below.

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

In the three month period ending March 31 2009 the exchange rate of the shekel increased against the dollar by 1.6%, compared with depreciation in the exchange rate of the shekel against the dollar of 10.2% in the same quarter last year.



The Company has a net obligation to its employees for severance pay, retirement plans, sick pay, and vacation pay as of March 31, 2010 of \$82 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 cash flow or operating costs of the Company 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 March 31 2010 saw expenses for this element to the amount of \$1.0 million, compared with the same period last year, in which the expenses for this element amounted to \$7.2 million.

Presented below are details of the business results, after neutralizing the effect of the exchange rate on the accrued severance pay element, as described above:

Three-month period ended March 31,	<u>Before</u>		<u>After</u>	
	<u>neutralizing the exchange-rate effect on the accrued severance pay</u>			
	2010	2009	2010	2009
	(in thousands US dollars)			
Operating expenses	363,582	327,934	362,860	331,990
Gross profit	56,912	18,733	57,634	14,677
Gross profit rate	13.5%	5.4%	13.7%	4.2%
Selling, general and administrative expenses	69,742	62,753	69,647	63,378
Other operating expenses (income), net	(1,885)	1,534	(1,662)	(1,027)
Operating profits before financing expenses	(14,715)	(42,486)	(13,675)	(49,728)
Operating profits rate before financing	(3.5%)	(12.3%)	(3.3%)	(14.3%)
Loss for the period	(16,532)	(39,840)	(15,492)	(47,082)
Loss rate for the period	(3.9%)	(11.5%)	(3.7%)	(13.6%)

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 (mainly to 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.

Company Management has decided that in determining the results of the reported operating segments, a number of components must be allocated that are not part of the direct expenses involved in operating the flights and which were included so far as under "unassigned expenses", such as depreciation resulting from flight equipment, fixed maintenance costs and fixed costs at overseas offices.

Operating segment results in the reported period as well as comparison figures in this report have been adapted retroactively to the format in question and as presented to the Company's chief operational decision maker.

B. Analysis of income and results by operating segments:

For Three-month period ended :					
31.03.2010	<u>passenger aircraft</u>	<u>cargo aircraft</u>	<u>others</u>	<u>Adjustment</u>	<u>Total consolidated</u>
in thousands US dollars					
operating revenues					
revenue from external customers	375,000	18,044	11,440	16,010	420,494
inter-segment revenues	-	-	16,567	(16,567)	-
Total segment revenues	375,000	18,044	28,007	(557)	420,494
segment results	<u>32,011</u>	<u>(946)</u>	<u>8,127</u>		39,192
Unassigned expenses					(53,907)
Operating loss before financing					(14,715)
Financing expenses					(9,130)
Financing income					2,009
Company's share in the profits of affiliates, net					0
Loss before income taxes					(21,836)
Income taxes					5,304
Loss for the period					(16,532)

For Three-month period ended :					
31.03.2009	<u>passenger aircraft</u>	<u>cargo aircraft</u>	<u>others</u>	<u>Adjustment</u>	<u>Total consolidated</u>
in thousands US dollars					
operating revenues					
revenue from external customers	305,395	19,200	9,800	12,272	346,667
inter-segment revenues	-	-	11,600	(11,600)	-
Total segment revenues	305,395	19,200	21,400	672	346,667
segment results	(2,420)	(6,584)	6,908		(2,096)
Unassigned expenses					(40,390)
Operating loss before financing					(42,486)
Financing expenses					(7,945)
Financing income					5,142
Company's share in the profits of affiliates, net					(1)
Loss before income taxes					(45,290)
Income taxes					5,450
Loss for the period					(39,840)

For year ended:					
31.12.2009	<u>passenger aircraft</u>	<u>cargo aircraft</u>	<u>others</u>	<u>Adjustment</u>	<u>Total consolidated</u>
in thousands US dollars					
operating revenues					
revenue from external customers	1,489,496	58,317	37,874	70,146	1,655,833
inter-segment revenues	-	-	68,051	(68,051)	-
Total segment revenues	1,489,496	58,317	105,925	2,095	1,655,833
segment results	112,453	(27,457)	27,457		112,453
Unassigned expenses					(187,421)
Operating loss before financing					(74,968)
Financing expenses					(30,297)
Financing income					3,999
Company's share in the profits of affiliates, net					442
Loss before income taxes					(100,824)
Income taxes					24,524
Loss for the year					(76,300)

The increase in Company revenues in the reported quarter and the increase in business results compared to the first quarter of 2009 was expressed by a 23% increase in passenger aircraft revenues and 31% in other revenues, and in an improvement in the results of all of the segments.

Revenues from cargo aircraft decreased due to the discontinuation of the activity of one cargo plane in the beginning of January 2010.

The increase in the results of the passenger plane segment derives both from the increase in the number of passengers and in the improvement of yield per passenger as well as the weakening of the USD vs. the EUR.

As stated, over the course of January 2010 the activity of one of the Company's two cargo planes was discontinued and activity is carried out using just one cargo plane, which led to a decrease in operating costs, a significant increase in load factor and in the amount of cargo carried, compared to the same quarter last year. In addition, revenues for one hour of flight also increased. These parameters significantly improved the results of the cargo plane segment compared to the corresponding quarter last year.

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.

a.7 Liquidity and Financing Sources

Movement in cash flow for the three month period ending March 31 2010 compared to the same period last year is:

	Jan - Mar 2010 in thousands US dollars	Jan - Mar 2009 in thousands US dollars	change in thousands US dollars
Cash flows from (used for) operating activities	53,875	(16,172)	70,047
Cash flows (used for) from investing activities	(5,624)	33,864	(39,488)
Cash flows (used for) from financing activities	(11,173)	6,001	(17,174)
Net increase in cash and cash equivalents	37,078	23,693	13,385

Operating Activities

The Group received a cash flow from operating activity to the amount of \$53.9 million in the quarter ending March 31 2010 (compared to a negative cash flow from operating activity to the amount of \$16.2 million in the same quarter last year). The change derives mainly from a reduction in loss before tax, from a seasonal increase in unearned revenues from the sale of flight tickets and from changes in employee benefit obligations, inventory and suppliers offset by the balance of trade receivables and payables

Investment Activities

In the first quarter of 2010, the Company invested a net sum of \$5.6 million. Investment in fixed and intangible assets amounted to \$8.6 million. On the other hand the Company received \$1.9 million from the realization of restricted deposits and \$1.2 million from the realization of fixed assets.

In the first quarter of 2009, the Company saw \$33.9 million from investment activity, mainly from the realization of restricted deposits to the amount of \$37.3 million and from the proceeds from the sale of an aircraft and other fixed assets to the amount of \$9.1 million, offset by investments in fixed and intangible assets to the amount of \$13.4 million.

Financing Activities

In the first quarter of 2010 the Company used \$11.2 million for financing activity, mainly for the redemption of long-term loans to the amount of \$11.7 million and a decrease in short term credit from banking institutions to the amount of \$1.8 million. On the other hand, the Company received loans to the amount of \$2.4 million in the reported quarter. In the corresponding quarter last year the Company saw \$6.0 million from financing activity, mainly as a result in increase in short term credit from banking corporations in Israel to the amount of \$15.0 million, offset by the repayment of long term loans to the amount of \$9.0 million.

In total the balance of cash and cash equivalents and short term deposits for March 31 2010 increased by \$37.1 million and reached a total of \$151.9 million, compared to \$114.6 million as of December 31 2009.

b. Exposure to and Management of Market Risks

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 \$0.01 increase in the price of a gallon of jet fuel during an entire year increases the Company's fuel expenses by \$2.3 million, and in addition, this change impacts the amount of collateral the Company is required to deposit with jet fuel hedgers. The Company has taken hedging measures to reduce the exposure, as detailed in b.1.(3) below.

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 \$7.0 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 paid 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 the present level of activity, appreciation of the exchange rate of the shekel relative to the dollar of each 1% for an entire year increases the Company's annual expenses by \$3.5 million. Likewise, a surplus of receipts exists for payments in Euro, 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 globally, due to exceptional security events, and to the oversupply of seats on airlines around the world. See Notes 22.g.1 and 16.g to the December 31 2009 Financial Statements for further details.

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 Board of Directors committee for market risks, management headed by the chairman of the finance, budget and Financial Statements committee, Mr. Nadav Palti, who is responsible for prescribing the policy for covering the existing exposure. The CFO is responsible for executing the policy and reporting to the Market Risks Management Committee. The Company has continued to hold regular meeting of the Market Risks Management Committee in 2009.

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 the 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 is as follows: hedging jet fuel quantities for up to 24 months forward, so that for every period, a minimum and maximum percentage to be hedged out of total expected consumption gradually decreases. Therefore, the maximum hedge percentage at the beginning of the period is 80% and the minimum percentage at the end of the period is 20%.

The Company's policy with respect to interest hedging is to hedge about half of the Company's credit portfolio, so that half will be at variable interest and half at fixed interest, for a period of up to 5 years.

The Company's policy with respect to exchange rates is to hedge up to half of its shekel exposure for one year forward.

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 after 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 March 31, 2010, the Company entered into several agreements, in order to hedge jet fuel prices, at 46% of expected consumption for April-December 2010 and 17% of expected consumption in 2011. These transactions are recognized as hedging agreements for accounting purposes. The fair value of all jet fuel hedging instruments as of March 31 2010 is a net negative sum of \$24.1 million, presented in the Financial Statements in the framework of current liabilities and long term liabilities under "Derivative Financial Instruments." The Company paid a total of \$18.7 million for these hedging agreements in the reported period. For further details see Note 31.g to the December 31 2009 Financial Statements.

For details regarding changes occurring subsequent to the balance sheet date, see Section e.2 of the Board of Directors report.

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.

Some of these financial instruments are recognized for accounting purposes as hedge transactions and some are not. The fair value of these instruments as of March 31 2010 is a negative sum of \$26.4 million, which is presented in the Financial Statements in the framework of current liabilities and non-current liabilities under "Derivative Financial Instruments."

After executing these hedges, as of March 31 2010, 51% of the balance of the Company's loans is at fixed interest for a period of up to 2.5 years. In addition, the Company has as of March 31 2010 a balance of loans to the amount of \$106.2 million at fixed interest for a period of 11 years constituting 13% of all of the Company's loans.

The Company paid refunds for these hedging agreements to the amount of \$1.5 million in the reported quarter.

For additional information on these transactions, see Note 31.f to the December 31 2009 Financial Statements.

For information on changes occurring subsequent to the balance sheet date, see Section e.3 of the Board of Directors Report below.

b.1.(5) Exchange Rate Hedges

In August 2009 the Company entered into financial transactions intended to protect the Company from drops in the exchange rate of the USD vs. the NIS for a 15 month period. These transactions are recognized as hedging agreements.

The fair value of these instruments as of March 31 2010 is \$5.3 million, presented in the Financial Statements as part of current and non-current assets under "Derivative Financial Instruments". In the reported period the Company received refunds for these hedging agreements to the amount of \$1.9 million.

For additional information on these transactions, see Note 31.e to the December 31 2009 Financial Statements.

For information on changes occurring subsequent to the balance sheet date, see Section e (4) below.

b.1.(6) Sensitivity Analysis Reporting

Presented below is a sensitivity analysis of the fair value of the financial instruments sensitive to possible changes in the risk factors to which they are exposed. The sensitivity analyses were performed relative to the fair value of the financial instruments as of March 31 2010.

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

A. Sensitivity to changes in shekel/dollar exchange rate – thousands of dollars:

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase 10%	Increase 5%		Decrease 5%	Decrease 10%
	4.084 NIS/\$	3.899 NIS/\$	3.713 NIS/\$	3.527 NIS/\$	3.342 NIS/\$
Cash and cash equivalents	(232)	(122)	2,554	134	284
Short-term deposits	(735)	(385)	8,086	426	898
Trade receivables	(58)	(30)	634	33	70
Other receivables	(885)	(463)	9,733	512	1,081
Current derivative financial instruments	(486)	(255)	5,345	281	594
Long-term bank deposits	(172)	(90)	1,892	100	210
Total financial Assets	(2,568)	(1,346)	28,244	1,487	3,137
Short-term borrowings and current maturities	202	106	(2,226)	(117)	(247)
Trade payables	1,754	919	(19,294)	(1,015)	(2,144)
Other payables - Current	335	176	(3,690)	(194)	(410)
Other payables - Non-current	403	211	(4,437)	(234)	(493)
Total financial liabilities	2,695	1,412	(29,647)	(1,560)	(3,294)
Exposure in linkage balance sheet due to surplus financial liabilities over financial assets	127	66	(1,403)	(73)	(157)

B. Sensitivity to changes in euro/dollar exchange rate - thousands of dollars:

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase 10%	Increase 5%		Decrease 5%	Decrease 10%
	0.818 Euro/\$	0.781 Euro/\$	0.744 Euro/\$	0.707 Euro/\$	0.670 Euro/\$
Cash and cash equivalents	(998)	(523)	10,978	578	1,220
Trade receivables	(1,504)	(788)	16,543	871	1,838
Other receivables	(62)	(33)	683	36	76
Total financial Assets	(2,564)	(1,343)	28,204	1,485	3,134
Short-term borrowings and current maturities	38	20	(414)	(22)	(46)
Trade payables	1,415	741	(15,561)	(819)	(1,729)
Other payables	344	180	(3,780)	(199)	(420)
Total financial liabilities	1,796	941	(19,755)	(1,039)	(2,195)
Exposure in linkage balance sheet due to surplus financial liabilities over financial assets	(768)	(402)	8,449	446	939

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% 2.541 \$/gallon	Increase 5% 2.425 \$/gallon		Decrease 5% 2.194 \$/gallon	Decrease 10% 2.079 \$/gallon
Jet fuel Inventorie	881	441	8,811	(441)	(881)

* The price of jet fuel according to a moving weighted average for the period ending March 31 2010.

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% 2.456 \$/gallon	Increase 10% 2.350 \$/gallon	Increase 5% 2.243 \$/gallon		Decrease 5% 2.029 \$/gallon	Decrease 10% 1.922 \$/gallon	Decrease 15% 1.816 \$/gallon
SWAP transactions - designed for hedging	40,975	27,317	13,658	(24,109)	(13,658)	(27,317)	(40,975)

* The price of Jet fuel in the Mediterranean Basin as of March 31 2010, according to which the fair value of the Company's hedge transactions is computed.

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 - designed for hedging	83	11	5	(3,636)	(6)	(12)	(85)
IRS transactions - not designed for hedging	5,712	755	367	(15,441)	(401)	(793)	(5,913)
Cylinder transactions - not designed for hedging	491	69	41	(7,275)	(28)	(55)	(486)
Total	6,286	835	413	(26,352)	(435)	(860)	(6,484)

* Fair value was calculated according to the market Libor rate as of the balance sheet date, at the following rates: 3-month Libor: 0.29%, 6-month Libor: 0.44%, and 12-month Libor 0.92%, 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/\$ *	Gain from changes	
	Increase 10% in exchange rate 4.084	Increase 5% in exchange rate 3.899		Decrease 5% in exchange rate 3.527	Decrease 10% in exchange rate 3.342
FORWARD transactions - designed for hedging	(12,021)	(6,012)	5,345	6,009	12,021

* The sensitivity analysis was conducted 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 3.713 NIS per USD on March 31 2010.

b.2 Linkage Basis Report

The following is the consolidated linkage basis report for March 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	119,539	2,554	10,978	10,694		143,765
Short-term deposits		8,086				8,086
Restricted deposits	5,130					5,130
Trade receivables	125,687	634	16,543	14,049		156,913
Other receivables	6,558	9,733	683	1,169		18,143
Current derivative financial instruments	8,458	5,345				13,803
Prepaid expenses					30,698	30,698
Inventories					17,648	17,648
Non-current assets						
Bank deposits		1,892				1,892
Investment in affiliated companies					648	648
Investments in another company	1,350					1,350
Derivative financial instruments	1,386					1,386
Fixed assets, net					1,288,120	1,288,120
Intangible assets, net					6,200	6,200
Assets due to employee benefits	118	34,465				34,583
Prepaid expenses					2,512	2,512
	268,226	62,709	28,204	25,912	1,345,826	1,730,877
Current liabilities						
Short-term borrowings and current maturities	(103,696)	(2,226)	(414)	(150)		(106,486)
Trade payables	(88,972)	(19,294)	(15,561)	(11,680)		(135,507)
Other payables	(52,364)	(3,690)	(3,780)	(3,968)		(63,802)
Provisions	(6,343)	(52,603)				(58,946)
Derivative financial instruments	(43,498)					(43,498)
Employee benefit obligations	(4,743)	(90,609)	(662)	(507)		(96,521)
Unearned revenues					(261,946)	(261,946)
Non-current liabilities						
Loans from financial institutions	(692,903)					(692,903)
Employee benefit obligations	(7,980)	(52,508)	(735)	(4,981)		(66,204)
Loans from others	(220)					(220)
Other payables	(6,095)	(4,437)				(10,532)
Derivative financial instruments	(16,807)					(16,807)
Deferred taxes					(4,620)	(4,620)
Unearned revenues					(51,313)	(51,313)
Shareholders' equity						
	(1,023,621)	(225,367)	(21,152)	(21,286)	(121,572)	(1,730,877)
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)						
	(755,395)	(162,658)	7,052	4,626	906,375	-

Free Translation of the Hebrew Language Financial Report - **Hebrew Wording Binding**

The following is the consolidated linkage basis report for March 31 2009:

	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	67,312	1,882	2,068	3,031		74,293
Short-term deposits		7,120				7,120
Restricted deposits	115,646					115,646
Trade receivables	105,083	654	21,330	7,972		135,039
Other receivables	11,015	7,552	302	842		19,711
Prepaid expenses					32,212	32,212
Inventories					16,282	16,282
Non-current assets						
Bank deposits		1,891				1,891
Investments in affiliated companies	1,229				1,506	2,735
Investments in another company	1,555					1,555
Fixed assets, net					1,278,090	1,278,090
Intangible assets, net					8,464	8,464
Assets due to employee benefits	139	30,804				30,943
Prepaid expenses					2,779	2,779
	301,979	49,903	23,700	11,845	1,339,333	1,726,760
Current liabilities						
Short-term borrowings and current maturities	(100,747)	(61)	(813)			(101,621)
Trade payables	(77,293)	(21,119)	(14,758)	(10,347)		(123,517)
Other payables	(47,630)	(3,714)	(2,791)	(3,264)		(57,399)
Provisions	(7,033)	(42,352)				(49,385)
Derivative financial instruments	(113,980)					(113,980)
Employee benefit obligations	(2,299)	(79,294)	(413)	(275)		(82,281)
Unearned revenues					(246,749)	(246,749)
Non-current liabilities						
Loans from financial institutions	(669,629)					(669,629)
Employee benefit obligations	(7,712)	(51,845)	(838)	(4,839)		(65,234)
Other payables	(12,376)					(12,376)
Derivative financial instruments	(65,581)					(65,581)
Unearned revenues					(50,203)	(50,203)
Shareholders' equity					(88,805)	(88,805)
	(1,104,280)	(198,385)	(19,613)	(18,725)	(385,757)	(1,726,760)
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	(802,301)	(148,482)	4,087	(6,880)	953,576	-

Free Translation of the Hebrew Language Financial Report - **Hebrew Wording Binding**

The following is the consolidated linkage basis report for December 31 2009:

	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	80,342	8,494	7,496	10,355		106,687
Short-term deposits		7,933				7,933
Restricted deposits	7,003					7,003
Trade receivables	92,993	788	9,301	9,004		112,086
Other receivables	7,119	5,915	1,744	1,377		16,155
Current derivative financial instruments	6,469	4,737				11,206
Prepaid expenses					24,873	24,873
Inventories					21,947	21,947
Non-current assets						
Long-term bank deposits		1,839				1,839
Investment in affiliated companies					648	648
Investments in another company	1,357					1,357
Derivative financial instruments	2,255					2,255
Fixed assets, net					1,312,930	1,312,930
Intangible assets, net					7,504	7,504
Assets due to employee benefits	118	34,383				34,501
Prepaid expenses					2,578	2,578
	197,656	64,089	18,541	20,736	1,370,480	1,671,502
Current liabilities						
Short-term borrowings and current maturities	(105,437)		(521)	(58)		(106,016)
Trade payables	(69,030)	(25,099)	(23,298)	(11,543)		(128,970)
Other payables	(46,010)	(1,819)	(3,231)	(3,384)		(54,444)
Provisions	(5,911)	(51,306)				(57,217)
Derivative financial instruments	(55,643)					(55,643)
Employee benefit obligations	(2,819)	(77,671)	(510)	(379)		(81,379)
Unearned revenues					(204,444)	(204,444)
Non-current liabilities						
Loans from financial institutions	(704,194)					(704,194)
Employee benefit obligations	(7,794)	(52,035)	(893)	(5,113)		(65,835)
Other payables	(13,318)					(13,318)
Derivative financial instruments	(20,135)					(20,135)
Deferred tax					(5,313)	(5,313)
Unearned revenues					(50,813)	(50,813)
Shareholders' equity					(123,781)	(123,781)
	(1,030,291)	(207,930)	(28,453)	(20,477)	(384,351)	(1,671,502)
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)						
	(832,635)	(143,841)	(9,912)	259	986,129	-

c. Aspects of Corporate Governance

c. 1 Disclosure in the Report of the Board of Directors regarding the Financial Statements approval process

The body charged with ultimate control in the Company is its Board of Directors.

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, Government Affairs and Regulations Committee and the Finance, Budget and Financial Statements Committee, consisting of four members, including an outside director. As of this report, three out of the four members of the committee have accounting and financial expertise, as defined in the Companies Law, 1999, and the regulations promulgated as a result.

A draft of the Financial Statements is sent in advance for the review of the members of the Board of Directors.

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 committee examines the significant financial reporting issues, including material transactions that are not in the ordinary course of business – if any, the significant assessments and critical estimates that were applied in the Financial Statements, the reasonableness of the data, the accounting policy applied and the changes that occurred in them, if any, the application of the principle of fair disclosure in the Financial Statements and various aspects of control and management of risks.

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

The committee holds 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 auditing accountant is asked to present his comments, if any, to the committee members – including accounting policy applied and special events that arose during the review.

The committee adopts a resolution to recommend to the Company's Board of Directors to approve the Financial Statements, subject to making corrections, changes and supplements – if so requested by the members of the committee.

The Financial Statements are presented to the members of the board in a separate meeting, in which the CEO, the CFO and other officers of the Company participate, also attended by the auditing accountant.

A discussion is also held in this forum regarding the Financial Statements, including questions addressed to the auditing accountant and members of the Company's management, and special issues in the reporting period are presented. At the end of the discussion, the Board of Directors adopts a resolution regarding the approval of the Financial Statements.

d. Disclosure Pertaining to the Corporation's Financial Reporting

d.1 Events Subsequent to the Balance Sheet Date

Regarding subsequent events see Note 10 to the March 31 2010 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 2009 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 8 to the Interim Financial Statements – regarding the legal proceedings against the Company.

Although the matter to which the independent auditors drew attention does not constitute a change in the uniform wording of the auditor's report, attention must be drawn to it because of its possible material effect on the Company.

e. Further 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.

Following the eruption of the volcano in Iceland and the diffusion of volcanic dust through European skies, starting April 15 2010 most European airports gradually closed to air traffic, this in accordance with European aviation authority directives. European airspace was completely closed for 6 days with thousands of flights cancelled a day. In addition, restrictions were placed on takeoffs, landings and aviation traffic in and around Europe. These events caused financial damage to the global economy and to the aviation industry in particular. According to IATA estimates European airlines lost at least \$1.7 billion as a result of the volcanic dust cloud.

The events in question also had an impact on the Company's European activities and led to the cancellation of dozens of flights to various European destinations. The Company continued with its usual activity to its destinations in America, Asia and South Africa and reinforced its flights to European airports open for traffic.

Since the end of the first quarter of 2010 jet fuel prices and the USD/NIS exchange rate have remained extremely volatile and an increase has occurred in USD interest rates. The impact of these changes on the Company shall be detailed below.

- b. As of the Balance Sheet date (March 31 2010) the price of jet fuel in the Med region was 213.6 cents per gallon, while as of immediately prior to the approval of the report for the first quarter of 2010 this price has reached 194.7 cents per gallon, a 8.8% decrease.

The effective price the Company is expected to pay for jet fuel consumption (after hedging) in April and May 2010 is 5% higher than the average effective price paid in the reported 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. In February and May 2010 the Company conducted additional hedging agreements for part of the fuel consumption projected for the third quarter of 2010.

Following the drop in jet fuel prices beginning in the second half of 2008, the Company provided, as collateral to guarantee its meeting, hedging payments owed in accordance with its agreements with the hedging institutions, consisting mainly of letters of credit issued by Israeli banks in return for the restriction of assets and cash, and in part from interest-bearing deposits deposited directly in the hedging banks.

Subsequent to the balance sheet date, the deposit updating mechanism continued on a regular basis in accordance with daily fluctuations in jet fuel market prices. Note that the amount of the collateral changes from day to day according to jet fuel market prices and the Company makes daily calculations regarding the changes required in the collateral and their extent. As of a date immediately prior to the approval of the Q1 2010 Financial Statements this collateral amounted to a sum of \$20.4 million (through letters of credit issued by foreign banks in return for the restriction of aircraft at local banks).

- c. Subsequent to the balance sheet date, an increase occurred in three-month Libor interest rates from 0.25% on March 31 2010 to 0.48% on a date immediately prior to the approval of the Q1 2010 Financial Statements.

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 second quarter of 2010 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, fluctuation continued in the exchange rate of the NIS vs. the USD. Immediately prior to the approval of this report, the NIS dropped 2.9% relative to the USD compared to the rate as of March 31 2010. A 1% revaluation in the NIS/USD exchange rate for an entire year increases the Company's yearly expenses by \$3.5 million.

In addition to the above, the revaluation of the NIS relative to the dollar increases the Company's shekel liabilities in dollar terms (see Section b.1.(1) of the Board of Directors Report), thus increasing or decreasing the Company's salary and financing expenses. 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 (June 30 2010).

Yair Rabinowitch
Outside Director

Elyezer Shkedi
Chief Executive Officer

May 25, 2010

**Appendix to the Report of the Board of Directors on the State of the Corporation's
Affairs for the Quarter Ended March 31, 2010**

**Minimal Disclosure Required for Value Estimates and in their Regard, and Rules
Pertaining to their Addition to Reports according to Securities Authority
Guidelines in Accordance with Section 36a to the Securities Act, 1968.**

Assessment of the Total Value of the 777-200 and 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 this case the asset has an impairment and IAS 36 demands the corporation to recognize an impairment loss.

The following document presents the key points of the value estimate performed by El Al Israel Airlines Ltd. Management (hereinafter "El Al" or "The Company") in order to determine whether the impairment 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 36a of the Securities Law, 1968, regarding minimal required disclosure for value assessments and rules regarding their addition to reports in accordance with the Securities Law, 1968.

b. Specification and Identification of Asset Group

The asset group for which the test was conducted includes the 777-200 fleet which consists of 6 aircraft owned by the Company and the 747-400 fleet which consists of 5 aircraft owned by the Company.

c. Opinion Validity Date

March 2010. The value estimate was based on financial projections for 2010 and coming years.

d. Value Assessor

The value assessment was performed by EI AI 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 (according to the latest price list published April 2010 2009) 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 EI AI in its various agreements with banks.

IAS 36 states that a provision for impairment must be made when the book value of an asset exceeds its recoverable amount. A recoverable amount is calculated as the asset's 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 March 31 2010 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 \$484 million, compared to the depreciated retained cost in the books of those aircraft as of March 31 2010, which amounts to a total of \$535 million.

The selling price of the 747-400 fleet amounts to a total of \$154 million, compared to the depreciated retained cost in the books of those aircraft as of March 31 2010, which totals \$256 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 - 13 years of activity (and sale of the aircraft at net selling price at the end of the 13 year period), for the 747-400 fleet - 6 years of activity (and sale of the aircraft at net selling price at the end of the 6 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 \$90 million in 2010, and the cash flow from the operation of the 747-400 aircraft fleet will amount to \$102 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.
- Residual value at the end of useful life (meaning after 13 years for the 777-200 fleet and 6 years for the 747-400 fleet): calculated based on AVAC and Airclaims projections and totaling \$202 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 2010.
- 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 2010 projection.
- The current tax rate expected for the Company for the coming 6-13 year period is zero.
- The Company assumes that the aircraft in question shall be used as passenger aircraft for the next 6-13 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):

*	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
Total discounted cash flow	87	80	74	69	64	59	55	51	47	43	40	37	35	741
Total residual value (after 13 years)														74

Total value of the above assets based on the discounted cash flow method: \$815 million.

* Referring to periods between April 1 to March 31 of the following year.

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 of use projections:

Discount Rate								
Yearly Contribution	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%
In Millions of Dollars								
80	824	799	776	753	731	711	691	673
85	870	844	819	795	773	751	730	711
90	917	889	863	839	815	792	771	750
95	961	932	905	879	855	831	809	787
100	1,006	977	948	921	896	871	848	825
105	1,052	1,021	992	964	937	911	887	863

Fuel price sensitivity analysis, use of the asset across 13 years:

Fuel Price (Cent per Gallon)	Yearly Contribution	NPV	Reduced Value	Difference of NPV Vs. Reduced Value
In Millions of Dollars				
225	94	846	535	311
238	92	830	535	295
250	90	815	535	280
263	88	800	535	265
275	86	784	535	249

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

*	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	Total
Total discounted cash flow	98	91	84	77	72	67	489
Total residual value (after 6 years)							52

Total value of the above assets based on the discounted cash flow method: \$541 million.

* Referring to periods between April 1 to March 31 of the following year.

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	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%
Yearly Contribution								
In Millions of Dollars								
90	514	506	499	492	485	478	471	464
95	539	531	524	516	509	501	494	487
102	573	565	556	548	541	533	526	518
105	590	581	573	565	557	549	541	534
110	615	606	598	589	581	573	565	557
115	641	631	622	613	605	596	588	580

Fuel price sensitivity analysis, use of the asset across 6 years:

Fuel Price (Cent per Gallon)	Yearly Contribution	NPV	Reduced Value	Difference of NPV Vs. Reduced Value
In Millions of Dollars				
227	105	559	256	303
240	104	550	256	294
253	102	541	256	285
265	100	532	256	276
278	98	523	256	267

a. Summary

The following table presents the summarized value assessment as of March 31 2010 for the 777-200 fleet:

Recoverable amount calculation

Net Selling Price	Value in Use for EI AI	Recoverable Amount - Whichever is Higher for EI AI
In Millions of Dollars		
484	815	815

Should impairment be listed in the books?

The Aircrafts' Depreciated Retained Cost on March 31 2010	The Recoverable Amount of the Same Aircraft to EI AI, on March 31 2010	Should Impairment be Listed in the Books?
In Millions of Dollars		
535	815	No

The following table presents the summarized value assessment as of March 31 2010 for the 747-400 fleet:

Recoverable amount calculation:

Net Selling Price	Value in Use for EI AI	Recoverable Amount - Whichever is Higher for EI AI
In Millions of Dollars		
154	541	541

Should impairment be listed in the books?

The Aircrafts' Depreciated Retained Cost on March 31 2010	The Recoverable Amount of the Same Aircraft to EI AI, on March 31 2010	Should Impairment be Listed in the Books?
In Millions of Dollars		
256	541	No

This value assessment is accurate on the date of its preparation and is based upon monetary details for 2010 and on projected income and expenses for the next 6-13 years. Changes in the projected assessments detailed above may alter the value assessment and the Company may subsequently be required to perform impairment.

EL AL Israel Airlines Ltd.

**Concise Interim Consolidated Financial Statements
As of March 31, 2010**

(Unaudited)

EL AL ISRAEL AIRLINES LTD

Concise Interim Consolidated Financial Statements (Unaudited)
As of March 31, 2010

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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 the concise consolidated report on its financial status as of March 31 2010 and its consolidated concise Statement of Operations and reports on General Earnings, Changes in Equity and Cash Flows for the three month period 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 these financial statements based on our reviews.

We did not review the concise interim financial information of subsidiaries, whose assets included in consolidation constitute 1.3% of total consolidated assets as of March 31, 2010, and whose revenues constitute 1.1% of total consolidated revenues for the three month period ending that date. The financial statements of those subsidiaries were reviewed by other auditors whose reports have been provided us, and our opinion, insofar as it relates to the amounts included in respect thereof, is based on the reports of those other auditors.

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. This review is significantly limited in scope compared to audits prepared in accordance with generally accepted Israeli auditing standards and therefore does not allow us to achieve assurance that we have become aware of all material issues that may be 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 leading 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 above, based upon our review and that of other CPAs, nothing has come to our attention causing us to believe that the financial information in question does not fulfill, in all material aspects, the disclosure directives laid out in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying the above opinion, we direct your attention to Note 8 of these Financial Statements regarding legal proceedings pending against the Company.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, May 25, 2010

The accompanying notes are an integral part of the financial statements.

EL AL Israel Airlines Ltd.
Concise Consolidated Balance Sheet

	As of March 31		As of December 31
	2010	2009	2009
	Thousands of Dollars (Unaudited)		Thousands of Dollars
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	143,765	74,293	106,687
Short-term deposits	8,086	7,120	7,933
Restricted deposits	5,130	115,646	7,003
Trade receivables	156,913	135,039	112,086
Other receivables	18,143	*19,711	16,155
Derivative financial instruments	13,803	-	11,206
Prepaid expenses	30,698	*32,212	24,873
Inventories	17,648	16,282	21,947
Total current assets	394,186	400,303	307,890
<u>Non-Current Assets</u>			
Bank deposits	1,892	1,891	1,839
Investment in affiliated companies	648	2,735	648
Investment in another company	1,350	1,555	1,357
Derivative financial instruments	1,386	-	2,255
Fixed assets, net	1,288,120	1,278,090	1,312,930
Intangible assets, net	6,200	8,464	7,504
Assets due to employee benefits	34,583	30,943	34,501
Prepaid expenses	2,512	*2,779	2,578
Total non-current assets	1,336,691	1,326,457	1,363,612
Total assets	1,730,877	1,726,760	1,671,502

(*) Restated - see Note 5

The accompanying notes are an integral part of the financial statements.

EL AL Israel Airlines Ltd.
Concise Consolidated Balance Sheet

	As of March 31		As of December 31
	2010	2009	2009
	Thousands of Dollars		Thousands of Dollars
	Unaudited		
<u>Liabilities and Shareholders' Equity</u>			
<u>Current Liabilities</u>			
Borrowings and current maturities	106,486	101,621	106,016
Trade payables	135,507	*123,517	128,970
Other payables	63,802	*57,399	54,444
Provisions	58,946	*49,385	57,217
Derivative financial instruments	43,498	113,980	55,643
Employee benefit obligations	96,521	82,281	81,379
Unearned revenues	261,946	246,749	204,444
Total current liabilities	766,706	774,932	688,113
<u>Non-Current Liabilities</u>			
Loans from financial institutions	692,903	669,629	704,194
Employee benefit obligations	66,204	65,234	65,835
Loans from others	220	-	-
Other payables	10,532	*12,376	13,318
Derivative financial instruments	16,807	65,581	20,135
Deferred taxes	4,620	-	5,313
Unearned revenues	51,313	50,203	50,813
Total non-current liabilities	842,599	863,023	859,608
Total liabilities	1,609,305	1,637,955	1,547,721
<u>Shareholders' equity</u>			
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	6,644	5,982	6,414
Capital reserve in respect of cash flow hedging	(16,729)	(101,826)	(30,822)
Accumulated loss	(288,484)	(235,492)	(271,952)
Total shareholders' equity	121,572	88,805	123,781
Total liabilities and equity	1,730,877	1,726,760	1,671,502

(*) Restated - see Note 5

Yair Rabinowitch
Outside Director

Elyezer Shkedi
CEO

Nissim Malki
CFO

Certification date of interim financial statements: Ben-Gurion Airport, May 25, 2010

The accompanying notes are an integral part of the financial statements.

EL AL Israel Airlines Ltd.
Concise Consolidated Statement of Operations

	For the Three Month Period Ending March 31		For the Year Ending December 31
	2010	2009	2009
	Thousands of Dollars (Unaudited)		Thousands of Dollars
Operating revenues	420,494	346,667	1,655,833
Operating expenses	<u>(363,582)</u>	<u>(327,934)</u>	<u>(1,444,250)</u>
Gross profit	----- 56,912	----- 18,733	----- 211,583
Selling expenses	(45,881)	(41,405)	(182,962)
General and administrative expenses	(23,861)	(21,348)	(88,562)
Other operating revenues (expenses), net	<u>(1,885)</u>	<u>1,534</u>	<u>(15,027)</u>
	----- (71,627)	----- (61,219)	----- (286,551)
Operating loss before financing	(14,715)	(42,486)	(74,968)
Financing expenses	(9,130)	(7,945)	(30,297)
Financing income	<u>2,009</u>	<u>5,142</u>	<u>3,999</u>
Financing expenses, net	----- (7,121)	----- (2,803)	----- (26,298)
Company's equity in earnings of affiliates, net	<u>-</u>	<u>(1)</u>	<u>442</u>
Loss before income taxes	(21,836)	(45,290)	(100,824)
Tax benefit	<u>5,304</u>	<u>5,450</u>	<u>24,524</u>
Loss for the period	<u>(16,532)</u>	<u>(39,840)</u>	<u>(76,300)</u>
Loss per NIS 1 par value share, in USD			
Basic loss per share	<u>(0.03)</u>	<u>(0.08)</u>	<u>(0.15)</u>
Diluted loss per share	<u>(0.03)</u>	<u>(0.08)</u>	<u>(0.15)</u>
Weighted average of number of shares issued for calculation of loss per share (in thousands)			
Basic	<u>495,719</u>	<u>495,719</u>	<u>495,719</u>
Diluted	<u>495,719</u>	<u>495,719</u>	<u>495,719</u>

(*) Restated – see Note 5

The accompanying notes are an integral part of the financial statements.

EL AL Israel Airlines Ltd.
Concise Consolidated Statement of Comprehensive Income

	For the Three Month Period Ending March 31		For the Year Ending December 31
	2010	2009	2009
	Thousands of Dollars (Unaudited)		Thousands of Dollars
Loss for the period	(16,532)	(39,840)	(76,300)
Other Comprehensive Income			
Earnings in respect of cash flow hedging, net of tax	14,093	9,779	80,783
Other comprehensive income for the period, net of tax	14,093	9,779	80,783
Comprehensive income (loss) for the period	(2,439)	(30,061)	4,483

The accompanying notes are an integral part of the financial statements.

EL AL Israel Airlines Ltd.
Consolidated Statement of Changes in Shareholders' Equity

For the Three Month Period Ended March 31 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 January 1 2010	155,012	28,007	237,122	6,414	(30,822)	(271,952)	123,781
Loss for the period	-	-	-	-	(16,532)	(16,532)	(16,532)
Other comprehensive income for the period	-	-	-	-	14,093	-	14,093
Total loss for the period	-	-	-	-	14,093	(16,532)	(2,439)
Share based payment	-	-	-	230	-	-	230
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	230	-	-	230
Total shareholders' equity as of March 31 2010	155,012	28,007	237,122	6,644	(16,729)	(288,484)	121,572

The accompanying notes are an integral part of the financial statements.

For the Three Month Period Ended March 31 2009

	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 January 1 2009	155,012	28,007	237,122	5,780	(111,605)	(195,652)	118,664
Loss for the period	-	-	-	-	-	(39,840)	(39,840)
Other comprehensive income for the period	-	-	-	-	9,779	-	9,779
Total loss for the period	-	-	-	-	9,779	(39,840)	(30,061)
Share based payment	-	-	-	202	-	-	202
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	202	-	-	202
Total shareholders' equity as of March 31 2009	155,012	28,007	237,122	5,982	(101,826)	(235,492)	88,805

The accompanying notes are an integral part of the financial statements.

For the Year Ended December 31 2009

	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 January 1 2009	155,012	28,007	237,122	5,780	(111,605)	(195,652)	118,664
Loss for the period	-	-	-	-	-	(76,300)	(76,300)
Other comprehensive income for the period	-	-	-	-	80,783	-	80,783
Total loss for the period	-	-	-	-	80,783	(76,300)	4,483
Share based payment	-	-	-	634	-	-	634
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	634	-	-	634
Total shareholders' equity as of March 31 2009	<u>155,012</u>	<u>28,007</u>	<u>237,122</u>	<u>6,414</u>	<u>(30,822)</u>	<u>(271,952)</u>	<u>123,781</u>

The accompanying notes are an integral part of the financial statements.

EL AL Israel Airlines Ltd.
Consolidated Statement of Cash Flow

	For the Three Month Period Ending March 31		For the Year Ending December 31
	2010	2009	2009
Thousands of Dollars			
(Unaudited)			
<u>Cash Flows from Operating Activities</u>			
Loss for the period	(16,532)	(39,840)	(76,300)
Appendix A - Adjustments required for presentation of cash flow from operating activities	70,407	23,668	98,699
Cash deriving from (used for) operating activities, net	53,875	(16,172)	22,399
<u>Cash Flows from (for) Investment Activities</u>			
Acquisition of fixed assets (including general engine overhauls and payment on account of aircraft)	(8,250)	(13,232)	(178,679)
Proceeds from realized fixed assets	1,233	9,091	22,803
Investment in intangible assets	(311)	(129)	(1,955)
Realization of restricted deposits	1,873	37,323	145,966
Decrease (increase) in short-term deposits, net	(153)	701	(112)
Investment in deposits for service providers and long-term	(57)	(33)	(176)
Repayment of deposits for service providers and long-term	41	143	727
Decrease in investments and loans to investee companies, net	-	-	1,229
Yield from the sale of affiliate	-	-	571
Cash deriving from (used for) investment activities, net	(5,624)	33,864	(9,626)
<u>Cash Flows from (for) Financing Activities</u>			
Receipt of long-term loans from financial institutions	-	-	113,259
Repayment of long-term loans from financial institutions	(11,711)	(8,919)	(74,615)
Receipt of other long-term loans	2,391	-	-
Repayment of other long-term loans	(27)	(93)	(254)
Payment for loan raising costs	-	-	(7,159)
Increase (decrease) in short-term credit, net	(1,826)	15,013	12,083
Cash deriving from (used for) financing activities, net	(11,173)	6,001	43,314
Increase in cash and cash equivalents	37,078	23,693	56,087
Balance of cash and cash equivalents at the beginning of the period	106,687	50,600	50,600
Balance of cash and cash equivalents at the end of the period	143,765	74,293	106,687

The accompanying notes are an integral part of the financial statements.

EL AL Israel Airlines Ltd.
Consolidated Statement of Cash Flow

	For the Three Month Period Ending March 31		For the Year Ending December 31
	2010	2009	2009
	Thousands of Dollars		
	(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)	34,226	39,177	160,987
Adjustment of value of long-term deposits	(30)	198	7
Share of losses (earnings) of affiliated companies, less dividends received, net	-	1	(284)
Deferred taxes, net	(5,370)	(5,393)	(24,604)
Increase (decrease) in liabilities in respect of employee benefits and in provisions	19,115	*(22,011)	(18,754)
Net capital gains from realized fixed assets	(212)	(100)	(582)
Benefit value of employee stock option program	230	202	634
Loss (gain) from adjustment of fair value of derivatives recognized in the statement of operations	1,569	(1,826)	(23,542)

Changes in asset and liability items:

Increase in trade receivables	(44,827)	(28,993)	(6,040)
Decrease (increase) in other accounts receivable	(1,988)	*(18)	4,110
Decrease (increase) in prepaid expenses	(5,759)	*(5,539)	2,001
Decrease (increase) in inventories	4,299	(4,810)	(10,475)
Increase (decrease) in trade payables	6,537	*(7,376)	(1,923)
Increase in other payables	4,615	*13,549	12,252
Increase in unearned revenues	58,002	46,607	4,912
	<u>70,407</u>	<u>23,668</u>	<u>98,699</u>

(*) Restated – see Note 5

Appendix B – Non-Cash Transactions

Yield not yet received from the realization of affiliated company	-	-	<u>572</u>
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Appendix C – Cash Payment (Receipt) of Interest, Taxes and Dividends, Classified Under Cash Flow from Operating Activities

Interest payments	<u>3,503</u>	<u>4,962</u>	<u>28,283</u>
Interest receipts	<u>(146)</u>	<u>(441)</u>	<u>(1,072)</u>
Tax payments – advances in respect of extraneous expenses	<u>19</u>	<u>15</u>	<u>203</u>
Dividend receipts	<u>-</u>	<u>-</u>	<u>(159)</u>

The accompanying notes are an integral part of the financial statements.

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

Note 1 - **General**

- a. EL AL Israel Airlines Ltd is primarily engaged, through its subsidiaries (hereinafter – "the Group") in the transport of passengers and cargo, including luggage and mail, on scheduled flights and charter flights between Israel and foreign countries. Further information on the Group's operating segments is presented in Note 12 below.
- 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.
- c. These concise statements must be seen in context with the Company's yearly Financial Statements dated December 31 2009 and the 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 include in its periodic report for the year ending March 31 2010 separate financial information as per Regulation 38.d of the Securities Regulations (Periodic and Immediate Reports), 1970.

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 the Board of Directors' meeting held for the ratification of the Financial Statements on May 25 2010 it was decided to authorize Mr. Yair Rabinowitz, an outside director and holder of accounting and financial capabilities, to sign in lieu of Mr. Amikam Cohen, Chairman of the Board of Directors, in light of the Chairman of the Board's absence from the Israel on the Financial Statement Approval Date.

Note 2 - **Significant Accounting Policies**

a. Basis for the preparation of the Financial Statements:

The Group's concise interim consolidated financial statements (hereinafter: "Interim Statements") have been compiled 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 2009 and for the year ending that date.

Regarding a periodic examination of depreciation and residual estimates and its impact on the Financial Statements from this point onward, see Note 7.c below.

- 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.

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

The accompanying notes are an integral part of the financial statements.

- (2) Balances linked to the Consumer Price Index are presented using the most recent known CPI value upon the balance sheet date (the CPI for the month preceding the month of the balance sheet date).
- (1) Below are data for USD exchange rates and CPI in Israel:

	<u>As of March 31</u> <u>2010</u>	<u>As of March 31</u> <u>2009</u>	<u>As of December 31</u> <u>2009</u>
CPI (in points)	104.3	101.1	105.2
USD/NIS exchange rate	3.713	4.188	3.775
USD/EUR exchange rate	0.744	0.751	0.694
USD/pound sterling exchange rate	0.662	0.699	0.618

Change in %:

	<u>For the Three</u> <u>Month Period</u> <u>Ended March 31</u> <u>2010</u>	<u>For the Three</u> <u>Month Period</u> <u>Ended March 31</u> <u>2009</u>	<u>For the Year</u> <u>Ended December</u> <u>31</u> <u>2009</u>
CPI	(0.9)	(0.1)	3.9
USD vs. NIS	(1.6)	10.2	(0.7)
USD vs. EUR	7.2	4.7	(3.3)
USD vs. pound sterling	7.1	2.0	(9.9)

Note 3 - New Financial Reporting Standards and Clarifications Published

- a. **New standards and clarifications, already in effect, that have no material impact on the current period and/or previous reporting periods:**

The following standards, clarifications and revisions which came into the effect this current year have no material impact on the current period and/or previous periods, but their coming into effect may influence future periods.

- **IAS 17 (Revision) "Leases"**

As part of the 2009 yearly improvement project, IAS 17 "Leases" was amended.

IAS 17 "Leases" states that land leases shall be classified as financial leases or operational leases using the general principles of the standard, taking into account that land is an asset with an infinite financial lifespan. Pursuant to the revision the general prohibition of classifying land leases as financial leases when the land does not pass on to the lessee at the end of lease period.

The revision shall apply retroactively to yearly reporting periods starting January 1 2010.

The revision shall be applied retroactively to existing leases when the required information is available at the beginning of the lease. When the required information is not available, land leases shall be reexamined on the date the revision is adopted.

Implementation of the revision had no impact on the Group's financial statements.

- **IFRS 3 (Revised) "Business Combinations"**

The new standard establishes new rules for the accounting treatment of business combinations. The standard is applied to business combinations occurring starting January 1 2010 or subsequently.

- **IAS 27 (Revised) "Consolidated and Separate Financial Statements"**

The accompanying notes are an integral part of the financial statements.

The new standard establishes the accounting treatment of consolidated and separate financial statements. The standard applies to yearly reporting periods starting January 1 2010 or subsequently. The standard is applied retroactively, with a number of exceptions, to which the standard is applied on a "here onward" basis.

- **IAS 28 (Revision) "Investment in Affiliated Companies" (Regarding the Loss of Material Influence in Affiliated Company).**

As part of the adoption of the revised IAS 27 as stated above, certain provisions of IAS 28 "Investments in Affiliated Companies" were revised. The revision establishes the accounting treatment in the matter of loss of material influence in an affiliate, when the entity continues to hold a certain stake in the invested company. This revision is applied on a "here onward" basis to yearly reporting periods beginning January 1 2010 or subsequently.

- **IAS 39 (Revision) "Financial Instruments: Recognition and Measurement" (regarding the designation of exposure to inflationary risks as hedging items"**

This revision states, among other things, that changes in cash flows deriving from exposure to inflationary risk can be designated hedging items. In addition the revision states that the internal value, unlike the time value of options purchased, is fit to serve as a hedging item of one side deriving from a projected transaction. The revision is applied retroactively to yearly reporting periods starting January 1 2010 or subsequently.

b. New standards and clarifications, published and not yet in effect, and not adopted early by the Group , which are expected to have or may have an impact on future reporting periods:

- **IFRS 9 "Financial Instruments"**

The new standard specifies classification and measurement directives for financial assets. The standard requires that all financial assets be treated in the following manner:

- Debt instruments shall be classified and measured after first recognition according to amortized cost or according to fair value by way of the statement of operations. Determining the measurement model shall take into account the business model of the entity on the matter of financial asset management and in accordance with the characteristics of the contractual cash flows deriving from those financial assets.
- A debt instrument which according to the tests is measured at amortized cost may be designated to fair value by way of the statement of operations only if the designation cancels a lack of continuity in recognition and measurement that would have been created if the asset had been measured at amortized cost. Capital instruments shall be measured at fair value by way of the statement of operations.
- Capital instruments may be designated on the date of first recognition to fair value when profits or losses are charged to other total earnings. Instruments designated in such a manner shall no longer be subject to examination for devaluation and resulting gain or loss shall not be passed on to the statement of operations, including upon realization.
- Embedded derivatives shall not be separated from a host contract covered by the standard. Instead, mixed contracts shall be measured as a whole at amortized cost or at fair value, in accordance with the business model tests and contractual cash flows.
- Debt instruments shall be reclassified from amortized cost to fair value and vice versa only when the entity changes its business model to the management of financial assets.
- Investments in capital instruments without a quoted price in an active market including derivatives of these instruments shall always be measured at fair value. The option to measure by cost under certain circumstances has been cancelled. At the same time, the

The accompanying notes are an integral part of the financial statements.

standard notes that under specific circumstances cost may be an appropriate estimate of fair value.

The standard applies retroactively with the exception of exceptional cases as detailed in the standard for yearly reporting periods starting January 1 2013 or subsequently. Early application is possible. Entities implementing the standard by way of early application prior to January 1 2012 may apply it non-retroactively.

At this stage the Company management cannot estimate the impact of the standard's implementation on its Financial Statements

- **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 when 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 capital instruments issued, shall be charged to the Statement of Operations.

This interpretation shall be applied retroactively to yearly reporting periods starting January 1 2011 or subsequently. Early implementation is possible.

At this stage the Company cannot estimate the impact of application of the interpretation on its financial status and operating results.

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

This interpretation establishes 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 as part of refunds from the plans or a reduction in future deposits to the plan. The interpretation shall be applied retroactively to yearly reporting periods starting January 1 2011 or subsequently.

At this stage the Company cannot assess the impact of application of the interpretation on its financial status 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 the subsequent periods.

For further details regarding critical accounting considerations employed by the Company, see Note 4 of the December 31 2009 Financial Statements.

The accompanying notes are an integral part of the financial statements.

Note 5 - Reclassification of Balance Sheet Balances

The following are balance sheet items the balances of which were reclassified as of March 31 2009:

1. Advance payments for the lease of aircraft to the amount of \$4,124 thousand classified from Receivables to Current Prepaid Expenses.
2. Prepaid expenses for frequent flyer points to the amount of \$2,779 were reclassified from Current Prepaid Expenses to Non-Current Prepaid Expenses.
3. Real estate lease incentives to the amount of \$3,530 thousand were reclassified from Trade Payables to Non-Current Payables.
4. a) Current liabilities due to an agreement pertaining to a \$2,988 thousand cargo claim were reclassified from Current Provisions to Current Payables.
b) Non – current liabilities due to an agreement pertaining to a cargo claim to the amount of \$8,846 thousand were reclassified from Non-Current Provisions to Non-Current Payables.

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

a. Framework Agreement with Cargo Terminals and Handling Ltd. ("Maman"):

Following Note 41.a of the December 31 2009 yearly Financial Statements, on April 12 2010 the Company announced that it had signed an agreement paper ("the Agreement Paper") with Maman, according to which, subject to the ratification of its General Meeting and the approval of the Stock Exchange, options shall be allocated by Maman to a trustee ("the Trustee Options") exercisable as Maman shares, this in lieu of allocation to the Company of first and second portion shares as defined in the framework agreement. It was also agreed that subject to the receipt of the approvals in question, the trustee shall be provided with the options Maman undertook to grant the Company in accordance with the framework agreement ("the Options in the Agreement").

The Agreement Paper states that the Trustee Options shall be exercised and converted to first and second portion shares and that the trustee would provide the Company with the Options in the Agreement, on the earlier of the following two dates: (a) August 31 2010, so long as no decision is reached by the Israel Antitrust Authority according to which the allocation of first and/or second portion shares constitutes a restrictive arrangement or misuse of a monopoly; or (b) the date on which approval is granted by the Israel Antitrust Authority according to which it believes that nothing in Restraint of Trade law precludes the allocation of the shares and options in question or that it does not intend to take any action pertaining to the allocation of shares and options in question, or that it was stopping its investigation into the matter of the framework agreement. Prior to the date in question no use shall be made of the Trustee Option and of the Options in the Agreement and no shares shall be allocated as a result.

The trustee agreement in question was adopted by the parties after the Israel Antitrust Authority informed Maman and the Company that the arrangements included in the framework agreement on the matter of the allocation of shares and discounts could apparently constitute a restrictive arrangement and misuse of a monopoly, in accordance with the Restrictive Trade Practices Act, 1988, and in light of this proposed that the parties avoid acting in accordance with the Framework Agreement. The trustee mechanism in question was adopted in order to provide the Israel Antitrust Authority with additional time for the purpose of examining the framework agreement and formulating its conclusions in our matter.

On April 14 2010 the Company received notice from the Israel Antitrust Authority that establishing a trustee, transferring options to the trustee and establishing a date for their exercise in accordance with the Agreement Paper are not compatible with the position of the Israel Antitrust Authority and that such an action may constitute a violation of the Restrictive Trade Practices Act, 1988 by the parties, their executives and the trustee appointed in accordance with the Agreement Papers and exposes them to means of enforcement resulting from the law in question. As a result of the notice from the Israel Antitrust Authority, no allocation of securities as per the framework agreement has yet occurred.

The accompanying notes are an integral part of the financial statements.

b. The Minister of Transportation's decision to approve scheduled flights to Eilat:

In continuation to Note 17.c.1 and 41.b of the December 31 yearly Financial Statements, on March 8 2010 Arkia filed a petition to the High Court of Justice against the Minister of Transportation and Road Safety, the Civil Aviation Authority and the Company (hereinafter: "the Respondents") and on March 9 2010 Israil filed a similar petition to the High Court of Justice. As part of the petitions, the Court was asked to issue an injunction instructing the Respondents to explain why the Minister of Transportation's decision dated February 4 2010 to allow the Company to operate scheduled flights from Ben Gurion Airport to Eilat should not be cancelled. In addition, the Court was asked to issue an injunction (or alternately a temporary order until the petition could be brought to court) instructing the Respondents to abstain from realizing the decision until the petition is ruled upon.

On March 10 the Company filed a petition to the High Court of Justice against the decision by the Minister of Transportation on the matter of the license granted the Company to operate the Eilat route ("the Decision"), pursuant to which a temporary order was requested instructing the Minister of Transportation and Road Safety and the Head of the Civil Aviation Authority to explain why the Court should not rule that the restrictions placed on the Company in the Decision be cancelled, as well as why the court should not instruct them to clarify why the Company's license must be reexamined after a period of six months.

The High Court of Justice decided not to issue injunctions as a result of the petitions filed by Arkia and Israil and the Court consolidated the discussion of the petitions and ruled that the petitions shall be heard before a panel of judges in April 2010. On April 15 2010 the discussion in question was held and the parties are awaiting the Court's ruling.

c. Cargo plane lease:

Following Note 41.c of the December 31 2009 Financial Statements, on March 28 2010 the Company signed an agreement for the leasing of a Boeing 747-400 aircraft, manufactured in 1994 ("the Agreement" and "the Plane", respectively), with an Irish aircraft leasing company. According to the agreement, the leasing period is from the date of the aircraft's receipt until June 30 2012 with the option (held by the Company) to extend the lease for an additional 36 month period. Note that during the period between April 2010 and the end of June 2010 the leasing fees shall be paid relative to the Plane's operation, in accordance with the commercial understandings achieved between the parties. In addition, pursuant to the agreement the Company was granted the right of first refusal and options to purchase the aircraft, in accordance with the agreements between the parties. The Plane was received by the Company on April 24 2010. In accordance with the terms of the agreement, the lease was classified as an operational lease.

d. ERP Project

Pursuant to that stated in the 2009 Financial Statement regarding the cancellation of the agreement for the implementation of the ERP, the Company has been conducting, starting March 2010, talks with IBM company in an attempt to resolve the financial dispute deriving from the cancellation of the agreement, including in the matter of the Company's purchase of rights to interim products created by the project's discontinuation, cancellation of mutual lawsuits and a resolution of compensation between the parties.

The Company listed \$1.3 million in expenses in the reported quarter as a result of the erasure of investment components that failed to reach realization and an additional sum of \$0.3 million as a provision for a final payment as a result of the project agreement.

e. Appointment of CEO:

On January 6 2010 the Company's Audit Committee and Board of Directors approved the terms of the employment of incoming Company CEO, Mr. Elyezer Shkedy. For details regarding the terms of the agreement and the allocation of stock options to the CEO, see Note 30.i.7 and Note 38.1 to the December 31 2009 Financial Statements.

The accompanying notes are an integral part of the financial statements.

Note 7 - Fixed Assets

a. Acquisition of fixed assets:

Pursuant to Note 16.e.1 of the Yearly Financial Statements, due to material changes occurring in the aviation industry as since the signing of the agreement with Boeing for the purchase of 4 777-200ER aircraft in March 2008 (hereinafter: "the Agreement"), including the global crisis impacting the world's markets, and due to the impact of these changes on the economic, business and financial environment in which the Company is active, and after a reevaluation of the Company's existing fleet of aircraft and necessary adaptations to it, the Company contacted Boeing and they acceded to the Company's request and on April 29 2010 the parties signed a letter of agreement to cancel the agreement and set the terms according to which the Company shall be entitled to make use of a sum equal to the advance payments paid as part of the agreements, this as a result of new aircraft purchase transactions in the coming years. The Company estimates that cancellation of the agreement in question will have no impact on its Financial Statements.

A strong and extensive relationship exists between the Company and Boeing and the cancellation of the agreement was out of mutual understanding and in light of the good relationship between the parties. The Company continues to study its business strategy and long and short term equipping needs, adopting to general market trends and in accordance with the Company's needs.

b. Devaluation of fixed assets:

Over the course of the reported period, the Company examined the recoverable value of aircraft fleets in which signs of deterioration were evident, which include, *inter alia*, aircraft price lists published from time to time. As regards the recoverable sum of these aircraft fleets, in which signs of deterioration were detected, it was found that the recoverable sum for each aircraft fleet surpasses its depreciated cost as of that date. Accordingly, no provision for the devaluation of aircraft assets was made in these Financial Statements.

c. Depreciation Policy

In accordance with the Company's up-to-date projections regarding the decommissioning of the three 757s and four 767s owned by the Company, the residual values of these aircraft and resulting depreciation costs were updated. Additionally, in light of the relatively close decommissioning date of these fleets, the continuing global aviation crisis and concrete price offers received by El Al regarding the aircraft, it was decided that the residual values of these fleets shall be set according to the aircraft price lists in "market value" values reflecting a lower value, and not in "MID" values, as was former practice regarding these fleets (and all fleets). Following the above change in estimates, in the first quarter of 2010 the Company recognized an additional depreciation cost of \$0.6 million. The added depreciation costs for 2010 following the change in estimate are expected to amount to \$2.4 million.

d. Ratio of Loan Balance to Guarantees

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

e. Unrestricted Assets

The value of the Group's total fixed assets as of March 31 2010 is \$1,288 million.

The Group's key assets are aircraft and spare engines, the depreciated cost of which as of March 31 2010 is \$1,152 million. The depreciated cost of the Group's main assets that are not restricted by a third party amounts to a total of \$30 million.

In addition, as of the balance sheet date, the Group possesses parts and fixed assets to the amount of \$136 million, free of any encumbrance.

The accompanying notes are an integral part of the financial statements.

f. Cargo Aircraft Activity

1. In July 2009 the Company submitted a request to the Government Companies Authority for the consent of the holder of the Special State Share, as required by the Company's articles, to remove two 747-200 cargo aircraft from Company service. In February 2010 the State approached the Company with several questions prior to providing its response and the Company provided its answers on February 22 2010. The State's decision on this issue has no impact on the Company's Financial Statements.
2. In January 2010 the cargo aircraft marked AXK carried out its last flight and at this stage is not active.
3. Regarding the lease of a 747-400 aircraft, see 6.c. above.

Note 8 - Legal Proceedings

- a. As of March 31 2010, claims filed against the Company amount to a total of \$142 million, for which the Company listed a \$3.2 million provision in its financial statements, this based on the opinions of the Company's legal counsel.
Legal claims non-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 abovementioned claims in excess of the above provisions recorded in the financial statements.
- b. In March 2010 a civil suit was filed before the Jerusalem District Court by Mishpacha Newspaper Ltd. and Mishpacha Magazine (2005) Ltd. against a cargo agent and against the Company for a sum of 6.5 million NIS (of which \$980,000 is against the Company), containing claims regarding cargo airway bills issued for cargo shipments. The Company has listed a provision for this claim in the Financial Statements, based on the advice of its legal counsel.
- c. In addition to b. above, additional lawsuits were filed against the Company in the first quarter of 2010 to the amount of \$0.5 million, of which \$0.4 million are in the opinion of Company Management, based on the advice of legal counsel, have a risk level of over 50%. The Company has listed provisions in its Financial Statements for these claims based on the advice of its legal counsel.
- d. Over the course of the quarter, three claims were resolved, totaling a sum of \$0.4 million for which the Company was liable for a payment of \$0.2 million.
- e. Regarding other material legal proceedings against the Company, see Note 27.d. to the December 31 2009 Financial Statements.

Note 9 - Taxes on Income

Not applying International Financial Reporting Standards for tax purposes:
Amendment 174 to the Income Tax Ordinance - Temporary Order to Tax Years 2007, 2008 and 2009 (hereinafter: "The Amendment") was published on February 4 2010. In accordance with the Amendment, Israeli Accounting Standard 29 on the matter of adoption of IFRS shall not apply to the determination of taxable income in the years in question even if applied for the purpose of preparing the financial statements. No law has yet been established pertaining to the issue of failure to apply International Financial Reporting Standards in the determination of taxable income in 2010.

The accompanying notes are an integral part of the financial statements.

Note 10 - Events Subsequent to the Balance Sheet Date

- a. Following the eruption of the volcano in Iceland and the diffusion of volcanic dust through European skies, starting April 15 2010 most European airports gradually closed to air traffic, this in accordance with European aviation authority directives. European airspace was completely closed for 6 days with thousands of flights cancelled a day. In addition, restrictions were placed on takeoffs, landings and aviation traffic in and around Europe. These events caused financial damage to the global economy and to the aviation industry in particular. According to IATA estimates European airlines lost at least \$1.7 billion as a result of the volcanic dust cloud. The events in question also had an impact on the Company's European activities and led to the cancellation of dozens of flights to various European destinations. The Company continued with its usual activity to its destinations in America, Asia and South Africa and reinforced its flights to European airports open for traffic. In light of the short duration of the event, Company Management estimates that the event will have no material impact on the Company's operating results.
- b. In May 2010 the Company signed a letter of intentions with Aviation Capital Group Ltd. to extend the lease agreement for a 737-800 aircraft starting November 2010 by an additional 5 years. The agreement features the option to end the agreement after 3 years.

In May 2010 the Company signed letter of intentions with International Lease Finance Corporation to extend the lease agreement for a 737-800 aircraft starting December 2010 by an additional 45 months.

In May 2010 the Company signed letter of intentions with International Lease Finance Corporation to lease a 767-300 aircraft manufactured in 1997 starting June 2010 for a period of 65 months.

Note 11 - Transactions and Commitments with Subsidiaries

1. As stated in Note 1.d, the Company did not include separate financial information in its report for the period ending March 31 2010, in accordance with Regulation 9c. of the Regulations, 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 and this from regulation and other administrative reasons (salary agreements etc.). These companies are not material relative to the Company as the extant of assets, liabilities and revenues managed as part of the subsidiaries are negligible relative to the extant of the assets, liabilities and revenues managed within the framework of the Company. Therefore, publication of separate Financial Statements will not provide additional material information to the reasonable investor.

The accompanying notes are an integral part of the financial statements.

2. The Company has entered into agreements with its subsidiaries as follows:

a. Activity between the parent company and its subsidiaries:

Company	Type of Activity	For the Three Month Period Ending		Investment Account as of		Credit and Debit Account as of	
		March 31	March 31	March 31	March 31	March 31	March 31
		2010	2009	2010	2009	2010	2009
Thousands of Dollars							
Sun D'Or	Leasing aircraft and associated services	16,400	11,528	3	3	5,040	7,451
	Commissions from parent company	208	160				
TAMAM	Purchasing food for Company flights at BGN	4,454	4,006	1,239	2,027	4,691	3,977
Borenstein	Purchasing food for Company flights from New York	1,426	1,540	4,476	4,305	131	317
	Management fees	28	35				
	Loan to parent company (1)					2,600	2,600
	Interest from parent company (1)	15	15				
Superstar	Sale of flight tickets	2,944	1,810	(53)	(39)	119	123
	Loan from parent company (2)			310	293		
Katit	Purchasing food for employees and food services in the King David Lounge in Terminal 3	697	581	-	-	945	805

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. This loan does not have a repayment date and bears no interest.

b. Collateral:

Sun D'Or guarantees the Company's liabilities to the Customs Authorities, to an amount of \$100,000.

The Company has granted Sun D'Or a letter of indemnification in which it undertakes to compensate Sun D'Or for any sum Sun D'Or is required to pay for the collateral.

Tamam provide bank guarantees to the IAA for licensing fees to the amount of \$0.7 million. The Company provided Tamam with counter-guarantees for the sum in question.

c. Mutual activity between subsidiaries:

Companies	Type of Activity	For the Three Month Period Ending		Credit and Debit Account as of	
		March 31	March 31	March 31	March 31
		2010	2009	2010	2009
Thousands of Dollars					
TAMAM-Katit	Food purchasing	14	17	22	25
Superstar-Sun D'Or	Flight Ticket Purchasing	912	297	995	568

The accompanying notes are an integral part of the financial statements.

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.

Company Management has decided that in determining the results of the reported operating segments, a number of components not part of the direct costs involved in operating the flights, which have been included to date under "unattributed costs", such as depreciation as a result of aviation equipment, fixed maintenance costs and fixed costs at overseas offices must also be allocated.

Operating segment results for the reported period as well as the comparison numbers in this report were adapted retroactively in accordance with the format set and as presented to the Company's chief operational decision maker.

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

	For the Three-Month Period Ending March 31 2010				
	Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total
	Thousands of Dollars				
Revenues					
Revenues from outside customers	375,000	18,044	11,440	16,010	420,494
Inter-segment revenues	-	-	16,567	(16,567)	-
Total segment revenues	375,000	18,044	28,007	(557)	420,494
Segment results	32,011	(946)	8,127	-	39,192
Unassigned expenses					(53,907)
Operational loss					(14,715)
Financing expenses					(9,130)
Financing revenues					2,009
The Company's share of the profits of subsidiaries, net					-
Loss before taxes on income					(21,836)
Tax benefit					5,304
Loss for the period					(16,532)

The accompanying notes are an integral part of the financial statements.

For the Three-Month Period Ending March 31 2009					
Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total	
Thousands of Dollars					
Revenues					
Revenues from outside customers	305,395	19,200	9,800	12,272	346,667
Inter-segment revenues	-	-	11,600	(11,600)	-
Total segment revenues	305,395	19,200	21,400	672	346,667
Segment results	(2,420)	(6,584)	6,908	-	(2,096)
Unassigned expenses					(40,390)
Operational loss					(42,486)
Financing expenses					(7,945)
Financing revenues					5,142
The Company's share of the profits of subsidiaries, net					(1)
Loss before taxes on income					(45,290)
Tax benefit					5,450
Loss for the period					(39,840)

For the Year Ended December 31 2009					
Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total	
Thousands of Dollars					
Revenues					
Revenues from outside customers	1,489,496	58,317	37,874	70,146	1,655,833
Inter-segment revenues	-	-	68,051	(68,051)	-
Total segment revenues	1,489,496	58,317	105,925	2,095	1,655,833
Segment results	112,453	(27,457)	27,457	-	112,453
Unassigned expenses					(187,421)
Operational loss					(74,968)
Financing expenses					(30,297)
Financing revenues					3,999
The Company's share of the profits of subsidiaries, net					442
Loss before taxes on income					(100,824)
Tax benefit					24,524
Yearly loss					(76,300)

The accompanying notes are an integral part of the financial statements.