EL AL
IT'S NOT JUST AN AIRLINE. IT'S ISRAEL

**17th August 2011.**

# El Al: Revenues for the 2nd quarter of 2011 grew by about 6%, to $530.5 million

## The 47% increase in the price of aviation fuel, and the 9% increase in the value of the shekel vis-à-vis the dollar increased the Company's costs by about $80 million before hedging, compared to the parallel quarter of last year.The loss of about $19.7 milion in the second quarter of 2011 derives amongst other things from these two factors, a loss to the Company in the second quarter of 2011 of about $19.7 million

## The Company has a cash balance and cash-equivalent values totaling about $174 million

## Hedging activity on the aviation fuel generated about $20.9 million for the Company, compared to hedging costs of $19.7 million in the parallel quarter of last year

**Elyezer Shkedy, Company CEO & President: "Competition has grown, around 25% growth in terms of seat capacity availability compared to two years ago, and the 13% for the last year. We are working hard to adapt the Company's strategies to today's commercial circumstances. Within this framework, we are implementing plans to reduce operating expenses that were influenced by the sharp and ongoing increases in fuel costs – about 47% compared to in the parallel quarter of last year, and the strengthening of the shekel against the dollar by an average of about 9%. One of the means of overcoming the situation is re-examining our route system. This month we announced that our route to Sao Paulo will be closed. It is our intention to utilize our efficient and thrifty 777s which will be freed up as a result, on other routes. We are also planning to remove aircraft that are considered fuel-inefficient from service, and to add winglets to the wing tips of other aircraft. These steps reflect our efforts to reduce costs and to maximize fuel efficiency."**

**Nissim Malki, Vice President Finance, noted: "In spite of the challenging commercial conditions, El Al has systematically managed to present high liquidity, as expressed in the cash balance of over $174 million, a positive cash flow of $20 million in the quarter, and an increase in revenues of 6%. We continue to implement wide-ranging and far-reaching plans to make the Company more efficient and to reduce expenditures. During the reported period the Company invested about $24 million in fixed assets, and continued with all its planned investment activity.**

**"Within the ongoing regular framework of managing our cash flow, it should be noted that from the start of 2011 we have taken action to extend the average duration of our bank credits. We have reached an agreement with three banks on rescheduling our balloon payments to an extent of a total of $260 million. Those payments should have been made over the period spanning 2011 to 2013, so that they are now spread over a longer period. As a result, El Al does not have any burden of significant balloon repayments until 2017.**

**"As announced today we reached an agreement with one of our lending banks concerning a loan, the balance of which is currently about $157 million, and whose original repayment date was to be July 2013. According to the agreement, a balance of about $104 million of the entire loan amount will be repaid in equal quarterly installments until July 2017, while the balance – about $53 million – will be repaid in a lump sum in July 2017. We reached similar agreements regarding two other smaller loans. The result is that thanks to the bankers' confidence shown in the Company, El Al has no significant balloon payment to make until July 2017."**

**Financial and operational highlights of the 2nd quarter of 2011**

| | 2011 | 2010 | % Change |
|---|---|---|---|
| Revenues | 530.5 | 502.4 | 6% |
| Gross Profit | 60.3 | 101.4 | (41%) |
| Operating profit (loss) | (23.2) | 25 | N/A |
| Net profit (loss) | (19.7) | 14.8 | N/A |
| Cash flow from regular activities | 20.2 | 82.9 | (75%) |
| Market share | 33.5% | 37.7% | (11%) |
| Load factors | 81.1%% | 80.1% | 1% |

## Financial results for the second quarter of 2011.

- **Revenues** for the present quarter totaled $530.5 million, compared to $502.4 million in the parallel period last year, an increase of about 6%. Revenues from passenger traffic increased by about 6%, as a result of the increase in passenger/kilometers and the increased yield per passenger/kilometer. Cargo revenues also grew by about 6%, and totaled $51.3 million, compared to $48.4 million in the parallel quarter of last year, largely as a result in the yield per ton/kilometer. It should be noted that in spite of a drop of about 2% in the amount of cargo carried at Ben Gurion Airport, the cargo market for El Al yielded an increase in revenues.

- **Operating expenditure** for this quarter totaled $470.2 million, compared to $400.9 million in the parallel period last year, an increase of about 17%. The ratio of operating expenses to turnover rose from about 79.8% in the second quarter of 2010, to 88.6% now. Most of the increase stemmed from the costs of aviation fuel, which totaled $183.5 million (representing about 34.6% on turnover), compared to $155.6 million in the parallel period last year (31% on turnover). The Company's expenditure on jet fuel increased largely as a result of the sharp increase - about 47% - in the average price of the fuel, compared to in the parallel quarter last year: from 227.4 cents a gallon to 334.6 cents a gallon. (The price of a barrel of Brent Crude went up during this period by about 49%, from $78 to $117 a barrel.) It should be noted that the price of a barrel of oil two days ago was $109 a barrel.

- During the current quarter the Company was reimbursed for hedging against fuel prices, by about $20.9 million (compared to hedging costs of about $19.7 million in the parallel quarter last year). In addition, the increase in operating expenditures resulted from an increase in salary costs, where the main reasons therefore were the approximately 9% upward revaluation of the shekel against the dollar, and salary increases of about 3% in accordance with labor contracts.

- **Gross profits** for the current quarter totaled about $60.3 million (a ratio of about 11.4% on turnover), compared to $101.4 in the parallel quarter of last year (a ratio of about 20.2% on turnover). This reduction resulted from the increases in the Company's operating expenditure as mentioned, over and above the increase in revenues.

- **The operating loss** totaled $23.2 million, compared to an operating profit of about $25 million in the parallel period last year. The main reason for the loss was the increase in operating costs, as explained above.

- **The net loss** for the second quarter of 2011 totaled $19.7 million, compared to a net profit of $14.8 million in the parallel quarter of 2010.

- **Cash flow** from regular activities during the second quarter of 2011 totaled about $20.2 million.

- **Load factors** on the Company's aircraft during the second quarter of 2011 were about 81.1%, compared to 77.7% for the rest of the flights of scheduled air carriers at Ben Gurion Airport.

## Financial and operational highlights of the first half of 2011

| | 2011 | 2010 | % Change |
|---|---|---|---|
| Revenues | 955.7 | 925.6 | 3% |
| Gross Profit | 82.1 | 161 | (49%) |
| Operating profit (loss) | (76.7) | 10.3 | N.A |
| Net loss | 62.6 | (1.7) | N.A |
| Cash flow from regular activities | 76.9 | 136.7 | (43%) |
| Market share | 35.5% | 38.8% | (9%) |
| Load factors | 79.1% | 80.6% | (2%) |

- **Revenues** for the first half of the current year totaled $955.7 million, compared to $925.6 million in the first six months of 2010, an increase of about 3%.

- **Operating costs** for the first half of 2011 totaled about $873.6 million, compared to $925.6 million in the parallel period last year, an increase of about 14%. Most of the increase resulted from the expenditure on aviation fuel, which totaled about $330.8 (about 34.6% on turnover), compared to $284.7 million in the parallel period of 2010 (30.8% on turnover). The increase here stemmed largely from the increase in the price of aviation fuel, approximately 47% compared to the parallel period in 2010.

- **Gross profit** for the first half totaled about $82.1 million, compared to $161 million in the comparative period last year. The drop resulted mainly from the increase in operating costs, as mentioned.

- **Operating losses** in the first half of 2011 totaled $76.7 million, compared to an operating profit of $10.3 million in the first half of 2010.
- **The net loss** for the first half of 2011 totaled about $62.6 million. Compared to a loss of $1.7 million in the comparative period of 2010.

**Additional data**

* As at 30th June 2011, the Company's **cash balances, cash equivalent values and short-term investments** totaled $173.8 million. It should be noted that during the first half of 2011, the Company invested about $63 million in fixed assets, including the purchase of a 747-400 aircraft, a replacement CFM engine and advance payments for the purchase of 737-900 aircraft.

* **Shareholders' equity** as at 30th June 2011 stood at $193.4 million. Shareholders' equity during the first half of 2011 was influenced by the losses for the period, after setting off the increase in equity funds for cash flow hedging, resulting from the increase in the fair value of the hedging activities held by the Company.

**About El Al**

**El Al Israel Airlines is Israel's national carrier. In 2010 El Al's revenues totaled about $2 billion, and the airline flew about 2 million passengers that year. El Al serves about 38 world destinations directly and many other destinations around the globe, through cooperation agreements with other airlines. The Company operates 40 aircraft, 28 of which are self-owned. El Al is also Israel's leading cargo carrier.**

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