

Elal Israel Airlines Ltd. Reports Second Quarter of 2006 Results

- **Increased revenues, totaling about \$429.2 million for the quarter.**
- **Reduction in gross profits for the quarter: About \$65.7 million compared to \$111.5 million last year.**
- **Quarterly loss of about \$15.1 million compared to a net profit of about \$29.9 million last year.**
- **The Company's cash balance at 30th June 2006 stood at about \$172.9 million, after advance payments for aircraft purchases amounting to about \$38 million, compared to \$198.4 on 31-12-2005.**

Lod, Israel, August, 15, 2006, Elal Israel Airlines Ltd. (TASE: ELAL) the Israeli national carrier Reports Second Quarter of 2006 Results.

Haim Romano, Company President, responding to the results, noted; "El Al managed to maintain a load factor of 80% in spite of the considerable deterioration of market conditions and the stiff business competition reflected especially by the increased seat capacity by foreign carriers – about 29% more – compared to only a 9% increase in passenger traffic through Ben Gurion Airport. This was achieved through the continued application of El Al's business strategy "El Al 2010", which is aimed at a major improvement in the Company's product and service, to ensure that El Al maintains its status as one of the world's leading airlines".

Romano added: recently Israel's aviation market has been being exposed to ever tougher competition, production price hikes and security crises. "We are absorbed in matching our activities to suit changing circumstances, while at the same time maintaining El Al's leading position in aviation".

The Company Management continues its efforts to implement the business strategy of "El Al 2010", which aims at realizing growth potential. Amongst other activities: a new Boeing 767 was added to serve trans-Atlantic routes; frequencies to London, Madrid, Paris and Amsterdam were increased to satisfy customer demand; a new non-stop service to Miami was inaugurated; plans were made to establish non-stop service to Los Angeles (the new service began in July); cooperation agreements with other airlines were expanded, permitting easy connections to hundreds of other destinations around the globe and thus increasing El Al's competitiveness against other airlines.

Company policy remains set to constantly increase the quality of the product and service excellence. The new central reservations Call Center was opened, giving our customers 24 hour service, 7 days a week, with access from anywhere in the world. The internet check-in-at-home service was launched and on board, the range of viewing channels was increased, in cooperation with HOT.

Another achievement in this quarter was maintaining on-time operations, at about 83%. El Al thus retains its position among the leading European airlines.

In relating to the effect of the war in the North, it should be noted that there has been a significant drop in reservations, and a concomitant rise in cancellations, both by Israelis and tourists. It should also be noted that El Al is forced to bear increased security and operating expenses resulting from the security situation.

Details from the financial report:

- **Revenues** for the quarter totaled about \$429.2 million, compared to \$422.7 million last year, a 2% increase. Most of this increase stemmed from a differing mix of passengers, reflecting a growth of prestige-class passengers.
- **The gross profit** totaled about \$65.7 (approximately 15.3% of turnover), compared to about \$111.5 last year (about 26.4% of turnover). The reduced gross profit (and ratio) stem mainly from the ongoing increases in fuel expenditure, the weak dollar in relation to other currencies that resulted in higher expenses, as well as a gradual linkage in production input costs to the moderate increase in Company revenues.
- **Expenditure on fuel** grew significantly as a result of the relentless rise in the price of aviation fuel, and stood at 27% of turnover compared to 23% last year. The market price of aviation fuel increased by an average of about 25% compared to the same quarter last year. These sharp fuel price increases alone contributed about \$21.3 million to Company expenditure in this quarter, after the Company's hedging activities.
- **The operating loss** totaled about \$5.3 million (about 1% of turnover), compared to an operating profit of \$34.9 million last year (about 8.3% of turnover). Ignoring the changes in exchange rates, which required registering certain non cash-flow expenditures, would have resulted in a total operating loss of about \$1.1 million only.
- **Losses for the quarter** totaled about \$15.1 million, compared to a net profit of \$29.9 million last year.
- **The Company's cash balance** on 30th June stood at about \$172.9 million.
- **Equity** on the 30th June 2006 totaled about \$245 million.
- **Cash flow** from ongoing activities for the quarter totaled about \$50.3 million.

Mr. Nissim Malki, Vice President Finance, said: "During this reporting period we had to face complex challenges which were influenced by significant outside events. Regarding revenues, we had to face the huge increase in seats offered by foreign carriers, while as to expenditure, we faced the continued increases in production input, and first and foremost fuel – the Company's main production expense. Obviously there must be a process of matching the required production input allocation to the rate of growth of Company activities, but this process is not gradual, and causes a temporary hiatus in profit margins".

About El Al

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



which are self-owned. El Al is Israel's leading cargo carrier. The Company is active in the charter market through its subsidiary Sun D'or.