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ELAL Israel Airlines Ltd. Reports First Quarter of 2008 Results

Company revenues reached an all-time record, and totaled \$471.5 million, compared to \$388.6 million in the comparative quarter last year, an increase of 21%.

- Gross profits in this quarter totaled \$54.9 million, an increase of 12% compared to the parallel quarter last year.
- The operating loss this quarter totaled \$47.4 million, compared to a loss of \$10.6 million in the parallel quarter last year.
- The net loss this quarter was \$49.9 million, compared to a net loss of \$15.3 million in the parallel quarter last year.
- The Company's cash balance at the end of the quarter was \$269.7 million, compared to \$260.2 million on 31st December 2007, and increase of about 4%.
- Cash flow from regular activities for the first quarter of 2008 totaled \$41.2 million, an increase of about 29% compared to the parallel quarter last year.
- Losses in the quarter include registered financing expenses of \$9.1 million as a result of the transfer to international accounting standards (IFRS).
- The Company registered a provision of \$20 million based upon the possibility of reaching an agreement with the USA Department of Justice concerning its investigation into air cargo transportation services.

Lod, Israel, May 28, 2008 - Elal Israel Airlines Ltd. (TASE: ELAL) the Israeli national carrier Reports First Quarter of 2008 Results.

Mr. Haim Romano, El Al's President, said: "In spite of the international crisis; the increases in fuel costs and the erosion of the exchange rates, all of which affected the results, the Company recorded record revenues for the first quarter. This represents a growth of about 21% compared to the parallel quarter last year. The Company increased its activities, offered more seating capacity and recorded continuing increases in revenues. The revenue increases are an indication of El Al's ability to face the revolutionary challenges in the local and international aviation market; the fuel prices reaching unprecedented heights; and the changes in currency exchange rates".

"It is also important to note that about 40% of the reported gross loss stems from the provision of approximately \$20 million, based on the possibility of reaching an agreement with the USA Department of Justice concerning its investigation into air cargo transportation activities. The main influence on the gross loss during the quarter stems from the 69%

increase in fuel prices. The quarter's results were also affected by the \$9.1 million registered financing costs resulting from the transfer to the international accounting standards, IFRS".

Results of the first quarter of 2008:

- ❖ Revenues for the quarter totaled \$471.5 million, compared to \$388.6 million in the parallel quarter last year, an increase of 21%. The increased revenues stem largely from the 22% increase in passenger revenues, the 12% increase in cargo revenues, and an increase of 42% in revenues from other sources such as duty free sales, aircraft leasing and from maintenance services provided to other entities.
- ❖ Operating expenses for the quarter totaled \$416.6 million, compared to \$339.6 million in the parallel quarter last year, an increase of 23%. The increase in operating expenses resulted mainly from the increase in aviation fuel prices, which is a most fundamental Company expense, as well as an increase in labor costs, resulting from the strengthening of the shekel. The ratio of operating costs to turnover increased from about 87.4% in the first quarter of 2007, to about 88.4% in the first quarter of 2008. The Company's aviation fuel expenses in the first quarter of 2008 totaled \$165.7 million, compared to \$112.7 million in the comparative quarter last year. This \$53 million increase represents an increase of 47%, even after hedging activity returns of \$6.3 million. Aviation fuel expenses in this quarter represent 35.2% of turnover, compared to 29.0% in the parallel quarter last year. During the quarter, the Company increased seat availability, flight operation hours and passenger numbers. The result was a decrease in load factors to about 80.7%, compared to 82.4% in the parallel quarter last year.
- ❖ The gross profit increased by about 12%, and totaled \$54.9 million (a ratio of about 11.6% on turnover), compared to \$49.0 million in the parallel quarter last year, (with a ratio of about 12.6% on turnover).
- ❖ Administration and General Expenses: These totaled \$24.9 million compared to \$23.1 million in the parallel quarter last year, an increase of \$1.8 million, resulting largely from the increase in the shekel-dollar exchange rates. Nevertheless, the ratio of administration and general expenses dropped to about 5.3% in the first quarter of 2008, from about 5.9% in the parallel quarter last year.
- ❖ The operating loss totaled \$47.4 million, compared to an operating loss of \$10.6 million in the parallel quarter last year, an increase of \$36.8 million, stemming largely from the increase in the cost of aviation fuel, and the strengthening of the shekel against the dollar. The operating loss in the quarter includes provision of \$20 million based upon the possibility of reaching an agreement with the USA Department of Justice concerning its investigation into air cargo transportation services, compared to one-time revenues of \$5.9 million in the parallel quarter last year.
- ❖ Net financing expenses totaled \$12.7 million. This included registered financing expenses of \$9.1 million as a result of the transfer to international accounting standards (IFRS).

- ❖ The loss in the first quarter of 2008 totaled 49.9 million \$, compared to a loss of \$15.3 million in the parallel quarter of 2007.
- ❖ The cash flow from regular ongoing activities increased by 29%, and totaled \$41.2 million, compared to \$31.9 million in the parallel quarter last year.
- ❖ The cash balance of the Company on March 31, 2008 totaled \$269.7 million, an increase of about 4% in comparison to a balance of \$260.2 million on December 31, 2007 and an increase of 83.5% compared to \$146.9 million on March 31, 2007. This is after investments in fixed assets of \$20.5 million; loan repayments of \$8.5 million, and dividend payments of \$3.1 million.
- ❖ Company equity on the 31st March 2008 stood at \$276 million, compared to \$205 million on the 31st March 2007, an increase of 34.8%.

Mr. Haim Romano added: "The aviation market in Israel has been exposed to increasing competition over the past two years. Foreign carriers have increased capacity by 35%. Nevertheless, our market share grew to 42.5%. We also managed to preserve a high load factor of about 80.7% on our aircraft. We are confident that we will continue to face the challenges successfully over the coming year".

Mr. Romano concluded: "We believe that in spite of the external influences that affect all the airlines companies, the steps we have taken will continue to bear fruit in the foreseeable future. We believe that the continuing growth in passenger activity, the increased efficiency and ongoing steps to improve the quality of our product and service excellence, are proof of the Company's Management and employees' ability to successfully meet the difficult challenges and increased competition in order to maintain El Al's leading position in the aviation sector".

Mr. Nissim Malki, El Al's CFO said: "During this quarter we had to face many challenges and outside influences. These led to an increase of \$77 million in operating expenses, mainly influenced by a 47% increase in the price of aviation fuel compared to the parallel quarter last year. Aviation fuel costs jumped sharply, and were also influenced by the changes in currency exchange rates, which resulted in an additional \$10 million in expenses (after hedging refunds of \$8.3 million). In spite of the effects of these outside factors, the Company has presented an increase of 21% in revenues, and continues to implement its short- and long-term investment programs. This is made possible thanks to the Company's strong cash flow from regular activities - \$41 million – and an increase of 29% compared to the parallel quarter last year, and a cash balance of about \$270 million at the 31st March 2008. The Company's strong cash situation indicates its stability and its ability to face the difficulties of this challenging period.

About El Al

El Al Israel Airlines is Israel's national carrier. The Company's annual revenues total about \$1.93 billion, and it flies over 1.8 million passengers a year. El Al serves about 40 destinations directly and many other destinations around the globe through cooperation agreements with other airlines. The fleet consists of 36 aircraft, 30 of which are self-owned.



El Al is Israel's leading cargo carrier. The Company is active in the charter market through its subsidiary Sun D'or. This is El Al's 60th year.