

## **Elal Israel Airlines Ltd. Reports Fourth Quarter of 2006 and 2006 Results**

- **Annual revenues totaled about \$1.7 billion, an increase of about 3%.**
- **Revenues for the quarter totaled about \$416.7 million, an increase of about 6.2%**
- **Annual gross profit for the year totaled about \$262.8 million, representing about 15.8% of turnover, compared to \$376.3 million last year, representing 23.2% of turnover.**
- **The net loss was \$44.4 million, compared to a net profit last year of \$64.1 million.**

**Lod, Israel, March, 26, 2006**, Elal Israel Airlines Ltd. (TASE: ELAL) the Israeli national carrier Reports Fourth Quarter of 2006 and 2006 Results.

Prof. Borovich, Chairman of the Board of El Al, and Haim Romano, Company President, in presenting the Company's financial reports, noted: "This year we managed to increase revenues and continued with our aircraft re-equipment and renewal program; this in spite of the geo-political changes and the increasing stiff competition from other airlines".

"The second Lebanese war was a sharp blow for tourism, and obliged us to reassess our working plans".

"Changes in fuel prices and the strengthening of the shekel vis-à-vis the dollar during 2006 increased our expenses by about \$111 million. This affected our profitability and was a major factor in the reported loss. Had we been able to neutralize those factors, our annual operating profit would have been about \$94 million.

The two further noted that: "The sharp increase in fuel prices alone added about \$136.9 million to the Company's expenses, before hedging. Hedging activity adopted by Management saved about \$52 million in fuel costs in 2006".

The dollar weakening in comparison to other currencies caused an additional expense of about \$27 million, compared to 2005.

"El Al is showing increased revenues and a positive cash flow that totaled about \$73 million, after repayment of Company loans totaling \$68 million this year. We believe that the Company's economic strength will continue to provide a solid basis for the its continued investment development in the future".

During 2006 the Company repaid about \$68 million net in loans, and continues speeding along to a new era in aviation, by renewing the fleet with two new aircraft.

**Haim Romano, Company President, noted that:** "Our challenges were not only with the seasonal elements inherent in commercial aviation, but also with the effects of the second Lebanese war, beginning in July, which caused a drop in incoming tourism to Israel of about 13%. Nevertheless, the efforts of both Management and employees to become more efficient and to face up to market conditions and increased competition all bore fruit in the 4<sup>th</sup> quarter. We are able to show a satisfying increase in revenues, which totaled \$416.6 million. During 2006 we invested about \$70 million in rejuvenating and renewing our fleet. We also invested in new ground-equipment and computerization, all with the aim of continuing our strategic plans to maintain El Al's leading position in commercial aviation."

"This past year was characterized by conflicting trends: One the one hand, a reduction in traffic at Ben Gurion Airport, and on the other, a rise in expenses. The rate of increase outstripped the expected increase in passenger traffic; this caused a reduction in most of the financial result parameters."

"This year we succeeded in increasing the load factor on our aircraft to about 81.3%; that is about 2.4% higher than last year's rate of about 79.4%. This increase is especially impressive in the face of the increase in seat capacity – by about 840,000 seats - offered by foreign carriers this year. The increased seat capacity offered by foreign carriers was accompanied by sharp drop in their load factors".

"Company employees and Management have again demonstrated their determination to meet goals. We are continuing to implement the "El Al 2010" strategic plan, which aims at improving the Company's financial results by increasing sales, increasing profits and increasing profit margins on turnover".

During 2006, revenues from cargo activities were about \$317.6 million, and increase of about 8% over 2005. The increase in freight and cargo demonstrates and expresses the success of the Company's strategic plans to develop additional revenue sources".

The Company continues to implement its growth policy. Our customers' inclination to prefer El Al – as revealed in recent surveys – persists. Statistics show that El Al comes 4th among European Airlines in low lost-baggage statistics; only 9.4 pieces per 1000 passengers. Our on-time operations stand at 84%, the highest among the airlines. The number of premium passengers rose by about 13% compared to 2005. This increase embodies customer preference for and loyalty to, El Al.

**The following are just some of the efforts by the Company to improve our product and the quality of our service:**

Tripling internet sales turnover

Check-in at home – over 10% of the population use this service.

Installing quick self-check-in stations at the airport, for passengers traveling with hand-luggage only.

Adding additional aircraft for passengers' benefit, including 737s and 767-300s. Business Class in the 737s and 757s has been improved by installing newly-designed spacious seats with more leg room between rows. The pitch between rows on the 767s has been increased to 60 inches for maximum comfort.

The new Business Lounge was opened in Paris, and new lounges are to be opened soon in both London and New York.

New non-stop routes were added, to Los Angeles and Miami, and additional services were added to the Far East.

The Company has adjusted its flight schedule to Europe to allow fast, smooth and easy links to connecting flights.

No doubt that the highlight of 2007 will be the arrival this summer of two new 777 aircraft - among the most advanced in the world. The new aircraft, which will serve as El Al's flagships on long-haul routes to North America and the Far East, represent one more step up - by any world standards - in El Al's service and passenger comfort. Amongst other innovations, passengers flying in the Premium Classes will enjoy seats that turn into a totally flat bed, and tilting seat/beds. Passengers in Economy Class will also benefit from new seats that promise maximum comfort.

### **2006 Results:**

\* **Annual revenues** totaled \$1.7 billion, compared to about \$1.6 billion last year. The increase in revenues resulted mainly from the increase in passengers flying El Al, additional flights, an increase in load factors from about 79.4% to about 81.3%, and from an increase in revenues per passenger. In addition, there was an increase from cargo activity and from providing maintenance services to other airlines.

\* **Gross profits** totaled about \$262.8 million, a ratio of about 15.8% on turnover, compared to about \$376.3 million last year, with a turnover ratio of 23.2%. During the year there was an increase in the cost of aircraft hire and flight equipment, an increase in salary expenses, brought about in part by the revaluation of the shekel and the euro vis-à-vis the dollar. In addition, fuel expenses, which are the Company's most significant expense, rose sharply as a result of the continued rise in aviation fuel prices. Fuel costs were about 28% of turnover this year, compared to about 24% last year. The price of aviation fuel rose by about 20% compared to last year. The Company's outlay for aviation fuel totaled about \$465.9 million. The management's successful hedging activities saved approximately \$52.3 million in fuel costs in 2006.

\* **The operating loss** totaled about \$17 million, compared to the operating profit of about \$88.9 million last year, a loss of about 1% on turnover compared to a profit ratio of about \$5.5 million on turnover last year. Selling, administrative and general expenses dropped by about \$7.6 million compared to 2005 as a result of efficiency activities and careful saving steps adopted by Management

\* **The loss** for the year totaled about \$44.4 million, compared to a net profit of about \$64.1 million last year. This year's net loss represents a ratio of about 3% on turnover, compared to last year's profit ratio of about 4% on turnover

\* **Cash balances and deposits** at 31/12/2006 totaled about \$150.8 million, compared to about \$206.8 million at the end of 2005.

\* **Company equity** totaled about \$230.3 million, a drop of about 15% compared to about \$271 million at the end of 2005

\* **Cash flow from current activities** for 2006 totaled about \$73.4 million, compared to about \$183.6 million last year.

**Results of the 4<sup>th</sup> quarter.**

- **Revenues** totaled about \$416.7 million, compared to about \$392.2 million in the parallel quarter last year. The increase resulted mainly from the increase in revenue-per-passenger-sector, from cargo revenues, and other revenues.
- **Gross profits** totaled about \$66.3 million, compared to about \$75.3 million in the parallel quarter last year. The gross profit represents a ratio of about 15.9% on turnover, compared to a ratio of about 19.2% in the parallel period last year. Fuel costs in the quarter increased by about 17% compared to the parallel quarter last year, about 28.7% on turnover, compared to about 26.1% last year.
- **Operating losses** totaled about \$10.1 million, compared to an operating profit of about \$5.1 in the parallel quarter last year. This loss is about 2.5% on turnover, compared to a profit ratio of about 1.3% on turnover last year.
- **Losses** for the period totaled about \$18.6 million, compared to a profit of about \$0.6 million in the parallel quarter last year. The net loss for the quarter is about 4.5% on turnover, compared to a profit ratio of about 0.1% on turnover last year.

**Mr. Nissim Malki, El Al's CFO, Vice President Finance said:** "In spite of the second Lebanese war and the sharp increase in aviation fuel prices, our activities succeeded in producing a cash flow from ongoing activities, that totaled about \$73.4 million, while cash balances totaled about \$151 million. This is indeed an important achievement, especially in the light of the fact that investments in aircraft and new technology continued, and that long-term loans of about \$70 million were repaid. There is no doubt that this important achievement will enable the Company to continue to grow and to implement its strategic "El Al 2010" vision.

**About El Al**

El Al Israel Airlines is Israel's national carrier. The Company's annual revenues total about \$1.7 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. This is El Al's 59<sup>th</sup> year.