

EL AL ISRAEL AIRLINES LTD.

FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2010 (unaudited)

CONTENTS

SECTION A - UPDATE OF CHAPTER A TO 2009 ANNUAL REPORT

SECTION B - DIRECTOR'S REPORT

SECTION C - FINANCIAL STATEMENTS

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

The following are 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 the International Accounting Standard IAS 34, "Interim Financial Reporting".

In the preparation of these Interim 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 that date.

The Company decided upon the early adoption of IFRS 9 "Financial Instruments" starting from 2010, with the start date set at January 1 2010. Likewise, the Company decided not to implement the comparison data retroactively.

For further details see Note 3a. to the September 30 2010 Financial Statements of the Company.

To Item 3.4 – Changes in Interested Parties' Holdings

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 and sales activities, so that as of November 10, 2010, the Ginsburg Group holds 8.74% of the Company's issued and paid-up capital.

The El Al Employees' Trust Holdings Corporation Ltd. (hereinafter: "the Employees' Corporation") carried out several sales of shares, so that as of November 10 2010, the Employees' Corporation holds 6.11% of the Company's issued and paid-up stock capital.

Mrs. Tamar Moses Borowitz, Deputy Chairperson of the Company's Board of Directors and a controlling shareholder of Knafaim and the Company, carried out several stock purchase actions, so that as of November 10, 2010 Mrs. Borowitz holds 0.40% of the Company's issued and paid-up capital.

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

According to IATA data, September 2010 saw a 10.5% increase in international passenger traffic compared to September 2009; this increase is significantly higher than the 6.5% and 9.2% increase in passenger traffic listed in August and July 2010, respectively. September 2010 saw a 14.8% increase in air cargo transport over September 2009; this increase is significantly lower than the 19% and 22.7% increases in air cargo transport listed in August and July 2010, respectively. The reverse trends in passenger traffic and cargo traffic reflect upon a mixed picture of the aviation industry performance. Seasonality-neutralized data indicates that compared to August 2010, passenger traffic increased 2.1% in September, while cargo traffic decreased at the same rate (-2.1%). Cargo flight traffic is an indicator of the strength of global economy, and the slowdown in airborne cargo shipping is a reflection of worldwide economic activity. The large increase in passenger traffic in September 2010 can be attributed to normal seasonal fluctuations influencing travel patterns, such as the end of Ramadan. As stated, international passenger traffic increased by 10.5% while seat availability increased by just 7.3%, and therefore an increase was listed in the average load factor in passenger flights, which was set on 80% compared to 77.7% in September 2009.

According to IATA data, the first nine months of 2010 saw an 8.3% increase in international passenger traffic and a 25.1% increase in international airborne cargo shipping, compared to the corresponding period last year.

Airlines increased capacity by just 3.6% and therefore an improvement was listed in the weighted load factor for passenger flights which as of the first nine months of 2010 amounted to 78.7% compared to 75.0% in the corresponding period last year.

Note that the first half of 2009 was influenced dramatically by the global financial crisis.

By regional cross-section: January-September 2010 vs. January-September 2009:

Region	Passengers			Cargo	
	RPK Growth	ASK Growth	PLF	FTK Growth	AFTK Growth
	YTD 2010 vs. YTD 2009			YTD 2010 vs. YTD 2009	
Africa	13.1%	9.3%	68.9%	35.4%	13.6%
Asia/Pacific	10.4%	3.0%	77.9%	30.0%	16.4%
Europe	4.4%	1.4%	79.8%	12.1%	-1.4%
Latin America	10.5%	4.6%	76.0%	38.5%	19.2%
Middle East	18.7%	13.2%	76.1%	30.8%	15.7%
North America	6.7%	2.1%	82.8%	27.6%	4.6%
Industry	8.3%	3.6%	78.7%	25.1%	8.9%

Regional distribution demonstrates that Middle Eastern airlines listed the largest growth rate (18.7%). Asian airlines listed a 10.4% increase in passenger traffic, with China continuing to serve as the growth engine for the entire region. African airlines displayed a 13.1% increase in the first nine months of 2010, with a 21.3% increase in passenger traffic in June alone, this as a result of the World Cup games held in South Africa during that month. South American airlines increased their passenger traffic by 10.5%, while North American airlines listed a 6.7% increase in passenger traffic while maintaining stability in their seat capacity but listing the highest occupancy rate (82.8%), which contributed to the improvement of their financial results. European airlines displayed the lowest growth rate (4.4%), in light of their response to the Euro crisis, consequences of the volcanic dust cloud and strikes.

In September 2010 IATA again updated the projected profit forecast for 2010 from \$2.5 billion (IATA forecast from June 2010) to \$8.9 billion. This improved forecast for 2010 is derived from a combination of factors, such as the increase in demand, alongside streamlining measures taken by the airline companies as well as a cautious seat capacity policy implemented by the airline companies which led to a considerable improvement in yield per passenger and income. On the other hand, costs remained stable.

The main reasons for the improvement in the projection are:

Supply and demand (capacity): considerable and rapid improvement in demand increased traffic by 3%-4% beyond levels in effect before the beginning of the economic crisis in early 2008. Demand (both passengers and cargo) in 2010 is expected to increase by 11%, while capacity is expected to increase just 7%.

Proceeds: the main reason the forecast improvement is, as stated, the proceeds. In addition to the cut in capacity carried out by the airline companies in 2009, the increase in seat capacity in 2010 has not caught up with the increase in demand. The result is that high occupancy rates improve the pricing power of the airline companies. In addition, the increase in business traffic in premium departments contributes too to the improved averaged proceeds. Therefore, the averaged proceeds per passenger is expected to increase by 7.3% and averaged proceeds per ton of cargo is expected to

increase by 7.9% (a considerable improvement over the June 2010 forecast, which projected a 4.5% increase in averaged proceeds both for passengers and cargo).

Income: according to the new forecast, airline revenues are expected to reach \$560 billion (\$15 billion more than in the forecast published June 2010).

Fuel: IATA predicts that the average price of fuel will be \$79 per barrel of oil in 2010, with no change compared to the previous projection. Fuel expenses continue to make up 25% of airline industry costs.

IATA also published a forecast for 2011, in which it predicts a natural slowdown in growth, and total profits of \$5.3 billion. The slowdown will pass over certain markets such as the Middle East, Asia and South America. Expected profits in 2011 will amount to 0.9% of the revenue.

To Item 6.2 – Movement in the Israeli Aviation Industry and to Item 7.1.3.(b) – Changes in the Extent of Activity in the Field and its Profitability – Developments in the Israeli Market

According to data provided by the Central Bureau of Statistics, the third quarter of 2010 saw 1.39 million exits of Israelis via air, a 7% increase compared to the corresponding quarter last year. Note that the 2010 Tishrei holiday season (High Holidays) occurred in September, while last year Sukkoth occurred in October (Q4), and as a result, the number of Israeli exits in September 2010 was relatively high.

In addition, Q3 2010 saw 604,000 tourist entrances via air (BGN and Eilat), a 5% increase over the corresponding period last year.

According to Airports Authority data, BGN international traffic increased by 6% in the third quarter of 2010 compared to the third quarter of 2009.

The average flight passenger occupancy rate was 84.6% compared to 85.5% in Q2 2009.

To Item 6.3 – Fluctuations in Jet Fuel Prices, and to Item 9.5.1 – Raw Materials and Suppliers – Fuel

The quarter ending September 30, 2010 saw a 16% increase in jet fuel market prices in the Mediterranean Basin compared to the corresponding quarter last year. The effective average jet fuel price paid by the Company rose, after hedging activity, by 13% compared to the corresponding quarter last year. Over the course of the quarter, fuel costs constitute 28.5% of the Company's turnover (in the third quarter of 2009 fuel costs constituted 27.4% of turnover). The following data refers to jet fuel prices in the Mediterranean Basin, as quoted by Platts¹. For further details, see Section b.1.(3) of the Board of Directors Report re Corporate Matters.

As of September 30, 2010 the Company held an inventory of jet fuel purchased from suppliers in Israel and abroad worth \$6.8 million.

To 6.4 – Fluctuations in Foreign Currency Rates

As of September 30, 2010, the exchange rate of the U.S. Dollar vs. the NIS was revaluated by 2.5% increase on the NIS value, relative to September 30, 2009, and by 2.9% increase relative to December 31, 2009. As of September 30, 2010, the exchange rate of the U.S. dollar vs. the Euro was revaluated by 7.7% increase to the USD relative to September 30, 2009, and a 5.9% increase relative to December 31, 2009. For further details, see Section b.1.(5) of the Board of Directors Report re Corporate Matters.

^[1]To the best of the Company's knowledge, Platts is a member of the McGraw-Hill Group which has provided information regarding 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.

To item 6.5 – Interest Rate Fluctuations

The average 3-month Libor rate dropped by 7.3% in the quarter ending on September 30, 2010 compared to the corresponding quarter last year. Compared to 2009, the 3-month Libor rate dropped by 45%.

For further details, see Section B1 of the Board of Directors Report re Corporate Matters.

1. Passenger Aircraft Activity

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

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

Jordan – Israel and Jordan signed a new aviation agreement allowing both countries' airline companies to increase their seat capacity on the Tel Aviv-Amman route by 50% up to 1,500 seats, instead of the current 1,000 seats. In addition, the frequency limitation between the Israeli and Jordanian airline which was standing at 14 weekly flights per party was cancelled, and it was agreed upon that no limitations would exist on the number of weekly flights between the two states. For the first time, the agreement established the possibility of operating regular flights from Aqaba and Eilat at with no restrictions re frequency, capacity or airline companies.

Georgia – over the course of October 2010, Israel and Georgia agreed to increase the approved flight frequencies for either country from 6 weekly flights approved today, to 10 weekly flights by each country. It was also agreed that each country would be permitted to appoint three regular airline companies to operate passenger flights, instead of the current arrangement of one airline per state. As a result, both countries' aviation authorities are expected to soon sign a new aviation agreement, which will allow an increase in the number of frequencies and designated carriers for each country. Correspondingly, the need for visas to enter either country was cancelled.

Russia – in October 2010, Israir began operating two regular weekly flights on the Moscow-Eilat route, which shall be operated until the end of the winter vacation period in May 2011. Israir shall operate these flights in conjunction with a Russian tourism wholesaler. These flights will be in addition to the 4 weekly Israir flights from BGN to Moscow.

In Q3 2010, certain airline companies operating on routes to Israel increased their seat capacity. Among the most prominent airlines increasing their capacities were: Air Canada, which increased its seat capacity by 43% by adding 2 weekly flights on the Toronto route and in total operated 7 weekly flights instead of 5 in the corresponding period last year; Delta Airlines, which increased its capacity on the New York route (+83%) by operating a larger aircraft on the route to New York starting June 2010. Likewise, Austrian Airlines, which increased its capacity by 13%, Air Baltic, which added frequencies and increased its capacity by 28%, Cyprus Airways, which added 2 weekly frequencies (a total of 9 compared to 7 last year), and Aegean Airlines, which operated 21 weekly flights, of those 7 scheduled flights to Athens and the remainder to the Greek Islands, compared to 5 weekly charter flights it operated during the corresponding period last year. Bulgaria Air, which operates scheduled flights to Sofia and charter flights to Burgas and Varna, considerably increased its activity to these destinations (+24%), as a result of the change in destinations favored by Israelis abandoning Turkey in favor of vacation sites in Greece and Bulgaria.

In total, scheduled foreign airline companies increased their capacity by 7% in the third quarter of 2010 and number of passengers increased by 6% compared to the third quarter of 2009.

The Group increased its seat capacity by 4% in the third quarter of 2010 and its passenger traffic also increased by 4% compared to the third quarter of 2009.

Competition on routes to and from Israel is expected to worsen, with the entry of additional airline companies such as the Danish company - Cimber which is expected to operate three direct and scheduled flights from Copenhagen to Tel Aviv starting November 2010, as well as the expansion of activity and increased capacity on behalf of existing airline companies. Prominent examples are: British low-cost airline Easy Jet, which began operations on the Luton-Tel Aviv route in November 2009, and in August 2010 began to also operate 4 weekly flights on the Geneva-Tel Aviv route. Furthermore, Easy Jet announced that it intends to operate 3 weekly flights from Tel Aviv to Basle starting December 2010, and in addition announced that beginning November 2010, an additional flight will be added to the Luton-Tel Aviv route (the seventh flight). In April 2010, Lufthansa added a fifth flight to Munich and announced its intention to double its seat capacity on this route over the course of the winter 2010/11 season, in addition to its intent to increase its seat capacity on the Frankfurt route.

Iberia is expected to add 4 flights on the Tel Aviv-Madrid route starting December 2010. The additional flights on the route to and from Israel constitutes part of the new collaboration between Iberia, American Airlines and British Airways.

Domestic Activity

In August 2010 the Company began operating 3 daily flights on the BGN-Eilat route.

In its first two months on the route, the Company flew 37,000 passenger segments and its share of domestic traffic to Eilat was 16%.

Low Cost Flights

In November 2010 Arkia began operating reduced cost flights to European destinations, using a Low Cost airline format. Initially, flights are sold to Paris and Amsterdam.

Pursuant to Section 7.2 of the Periodic report - Services in the Area of Activity, the following is data regarding developments in passenger traffic by central destination groups:

In total, international traffic through BGN increased by 6% compared to the third quarter of 2009. Passenger traffic in the third quarter of 2010 was divided between the airline companies in the following manner: El Al and Sun D'Or – 34.0%; other scheduled airline companies – 46.5%; charter airlines – 19.5%.

Western European Routes

Western European routes saw an 8% increase in total passenger traffic in the third quarter of 2010, compared to the corresponding period last year. Foreign scheduled airlines increased their seat capacity on this network of routes by 4% and listed a similar increase in passenger traffic. Their occupancy rate was 85.3% compared to 84.9% in the third quarter of 2009.

Foreign charter airlines significantly increased (a 46% increase in seat and passenger capacity) their activity in Q3 2010 compared to Q3 2009.

The Group increased its seat capacity by 6% in the third quarter of 2010 and listed an increase of 5% in its passenger traffic.

Note that Sun D'Or significantly increased its activity (+31%) on this route network relative to the comparable quarter last year and in particular on routes to Germany, Italy and the Netherlands.

The Groups' average occupancy rate in Q3 2010 was 88% and its share of total passenger traffic in this route network was 37.1%.

Routes to Central and Eastern Europe

In total, international traffic on routes to Central and Eastern Europe increased by 17% in the third quarter of 2010 in comparison with the corresponding quarter last year.

Foreign charter airlines increased their seat capacity by approximately 45% in the third quarter of 2010 and their passenger traffic increased at the same rate.

Compared to the third quarter of 2009, scheduled airline companies increased their seat capacity by 4% and the number of passenger increased by 3%. The Group also increased its seat capacity on these routes and listed a moderate 3% increase in passenger traffic on these routes. The principal increase in traffic was listed on routes to Bulgaria (+43%), Croatia (+59%) and Romania (+19%).

The Group's market share in this route network in the third quarter of 2010 reached 26.4%.

Routes to the CIS

Passenger traffic on routes to CIS states increased by 21% in the third quarter of 2010 compared to the corresponding quarter last year.

Impressive increases in traffic were listed on routes to Russia (+14%), Ukraine (+32%), Uzbekistan (+31) and Georgia (+27%).

Scheduled foreign airlines operating on routes to the CIS increased their seat capacity by 18% compared to the third quarter of 2009 and listed a 14% increase in passenger traffic and their occupancy rate reached 73% compared to 75.4% in the third quarter of 2009.

Competition on the Russian routes worsened with the beginning of activity by Aeroflot on the Tel Aviv-Moscow route in August 2010. Aeroflot operates 5 weekly flights on this route on a charter basis. Aeroflot is the first Russian airline to operate charter flights on this route. In light of the increasing demand on the Tel Aviv-Moscow route, Aeroflot increased its seat capacity on flights to Israel starting late October 2010, this through a wide-bodied plane that was integrated into the airline's flights to Israel. Competition on routes to Ukraine also increased with the beginning of activity by Ukraine International Airlines, which over the course of Q3 2010 operated 6 weekly flights on the route to Kiev, alongside an increase in activity by Aerosvit.

During this period, the Group (El Al and Sun D'Or) increased the number of seats offered in this route network by 14% and the Group's passenger numbers increased by 7% compared to the corresponding period last year. The Group increased its activity significantly, mainly on the Tel Aviv-Moscow and Tel-Aviv-St. Petersburg routes. On the Moscow route, the Company operated 16 weekly flights compared to 13 in the third quarter of 2009 and on the Tel Aviv-St. Petersburg route, the Company operated 4 weekly flights compared to 3 weekly frequencies on this route in the third quarter of 2009.

The Group's quantum of passenger traffic on these routes in Q3 2010 was 28.6%.

North American Routes

A 10% increase in passenger traffic on transatlantic routes was listed in the third quarter of 2010 compared to the third quarter of 2009.

In this quarter, the foreign airlines operating on North American routes increased their seat capacity by 15% and listed a similar increase of 16% in their passenger traffic.

The principal increase in capacity derives from the increased capacity by Delta Airlines on the New York route, which saw an 83% increase in the capacity for the airline, which in total listed a 31% increase in seat capacity on routes to the U.S. (New York and Atlanta), along with a similar increase (30%) in passenger traffic.

Air Canada also significantly increased its seat capacity and passenger traffic (by 43% and 33%, respectively), by adding frequencies.

On the other hand, the Company increased its seat capacity on these routes by just 4% and listed a 3% increase in passenger traffic.

East Asian Routes

An increase of 6% occurred in passenger traffic on East Asian routes in Q3 2010 along with a 2% increase in seat capacity in this route network. The increase in passenger capacity largely derives from an increase in passenger traffic on the route to Seoul (+20%) in which Korean Air operates alone and the route to Mumbai (+21%), in which the Company increased its activity by adding weekly frequencies; in total, the Company flies to Mumbai 4 times a week compared to just 3 times during the corresponding quarter last year.

In total, the Group increased its seat capacity by 4% compared to the third quarter of 2009 and its passenger traffic increased too by the same rate. The Company announced its intention to increase its activity to East Asia in Winter 2010/11 by adding frequencies to Hong Kong, Beijing and Mumbai and by increasing its capacity on the Bangkok route by using a 747-400 Boeing aircraft.

Regional Network

The regional route network saw a 17% decrease in passenger traffic and a 14% decrease in seat capacity compared to Q3 2009, this as a result of the sharp drop (-65%) in passenger traffic between Israel and Turkey as a result of the Flotilla events in May 2010 and the deterioration in relations between the countries. At the same time, a significant 86% increase was listed in passenger traffic to Greece and to the Greek Islands.

At this stage, scheduled flights to Istanbul continue, operated by Turkish Airlines, albeit at a much lower frequency. Likewise, charter flights operated by Turkish companies continue.

In this route network, the Company operates flights on routes to Cairo, Greece and the Greek Islands (via Sun D'Or). The Group's quantum of this route network is only 12.8%.

In total, the Group's (El Al and Sun D'Or) seat capacity on the regional route network decreased by 11% compared to Q3 2009 and the number of its passengers decreased by 3%.

To Item 7.1.5 – Technological Changes that May have a Material Effect on the Field of Activities

Sun D'Or has launched a new website that features a new design and branding as well as a content management system that allows, among other things, the sale of business class seats. Furthermore, In July 2010 the "Sun D'Or Spontaneous" system was improved and developed for the Sun D'Or deals shop, and it can be used to order low-price flights to a variety of Sun D'Or locations at last-moment prices.

Following that stated in the 2009 periodic report regarding the cancellation of the agreement to carry out the ERP project, the Company began a process of receiving new proposals from various organizations (RFP) for the implementation of a staged ERP project for select Company organizational units in Israel and around the world.

To Item 7.4 – New Services

The Company signed a cooperation agreement (on an interline basis) with Jet Blue Airlines, which operates a large volume of domestic U.S. flights departing from JFK Airport in New York, starting November 2010, which will allow the Company to offer a variety of new connecting flights throughout the U.S, Central and South America and the Caribbean.

Furthermore, the Company recently signed a code share agreement with Siberia Airlines (hereinafter: "S7") on the Tel Aviv Novosibirsk route. The purpose of the agreement is to expand the Company's Russian destination and open the door to expanding cooperation to additional Russian destinations. The agreement follows a two-sided free sale format that shall apply to LY flights to Moscow (S7 sells on Company flights) and S7 flights to Novosibirsk connecting to these flights (the Company sells on S7 flights), in both directions. The sale shall be made directly from

the seat inventory of each of the companies, while defining the appropriate listing classes and price levels for each class and each flight segment.

To Item 7.10 – Manufacturing Ability

In Q3 of 2010 the Company increased its seat capacity (ASK) by 3.4% and the Company's number of passengers times the distance flown (RPK) increased by 1.8% compared to the corresponding quarter last year. As a result, a 1.5% decrease was listed in its weighted load factor to 83.8%, compared to 85.1% in the same quarter last year.

To Item 7.11 – Aircraft Fleet in the Passenger Aircraft Field

In October 2010 the Company signed an agreement to lease a 737-800 aircraft from Wilmington Trust Sp Services (Dublin) Limited, which holds the plane in trust for CIT Aviation Finance Limited, with whom a memorandum of understanding was signed in July 2010 regarding the aircraft in question. The agreement includes the aircraft's lease for an additional 68 months, with an option to extend the lease by an additional 24 months. The aircraft, manufactured in 2006, shall be reconfigured to El Al configuration upon receipt.

In October 2010 the Company signed an extension and revision to an agreement to lease a 737-300ER aircraft, manufactured in 1991, from Aerospace International CIT, for an additional 42 months with the option to shorten the additional leasing period to 18 months.

In August 2010 the Company signed an extension and a revision to the lease for the 737-800 aircraft, manufactured in 2001, from the International Lease Finance Corporation ("ILFC"), with whom a memorandum of understanding regarding the aircraft in question was signed in May 2010. The aircraft shall be leased for an additional 45 months.

In October 2010 the Company signed an extension and a revision of the lease for the 737-800 aircraft, manufactured in 2003, from RAIN VI LLC through the Aviation Capital Group Corp ("ACG") , with whom a memorandum of understanding regarding the aircraft in question was signed in May 2010. The aircraft shall be leased for an additional 5-year period with an option to shorten the additional lease period to 3 years. As part of the Company's equipping plan, the Company is studying the option of purchasing eight new 737-900ER aircraft, that are convertible to 737-800 models, from Boeing. So as to hold on the rights to the aircraft, the Company made an initial deposit with Boeing.

2. Cargo Aircraft Activity

To Item 8.1.1 – Structure of the Field of Activity and Changes Occurring Therein

Pursuant to Item 8.1.1 of the Periodic Report, according to the Company's estimates, the Group's share of cargo transport in July-September 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 67.2%, this in comparison with 31.9% in the same period last year.

To Item 8.1.3 (a) – Extent of Global Cargo Transport

According to IATA reports, in January-September 2010, international transportation of cargo (including in passenger aircraft holds) increased by 25.1% compared 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%).

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

According to Airport Authority data, in January-September 2010, cargo traffic through BGN increased by 15.4% relative to the same period last year.

To Item 8.2 – Services in the Field of Activity.

In October 2010 the Company began operating a weekly flight to Hong Kong using its 747-400F cargo plane.

To Item 8.4 – Essential Agreements

In November 2010 the Company informed Maman Cargo and Handling Terminals Ltd. that it would be extending the framework agreement between the companies, which was signed in February 2010, for an additional period of one year. For details regarding the agreement and resulting rights see the revision to Section 9.11.2 (i) below.

3. Information on Both Fields of Activity

To Item 9.4.2 – Employees

Pursuant to Item 9.4.2 of the Periodic Report, the following is an updated table regarding the Company's payroll as of September 30 2010:

December 31, 2009	September 30 2010	
3,733	3,823	Regular employees
2,074	2,020	Temporary employees
5,807	5,843	Total employees

To Item 9.4.7 – Special Collective Agreements

In September 2010 the Company signed a collective agreement with the New General Workers' Histadrut, Professional Union Branch – Transportation Workers Union, the Pilots' Union, via representatives of the El Al pilots' sector, dealing in various agreements pertaining to the Company's flight crews.

To Item 9.4.16 – Executives and Senior Management

The VP of Trade and Aviation Relations, Mr. Eli Cohen, announced his resignation on October 18 2010. Mr. Cohen ceased serving as a Company senior executive starting November 15 2010.

Pursuant to the Company's 2009 periodic reports regarding the February 1 2010 request by a shareholder sent to the Chairman of the Company's Board of Directors, according to which the Company is required to file a suit against members of the Company's Board serving on the Board on the date the Company's agreement with former CEO Mr. Chaim Romano was ratified (hereinafter - "the Directors), and following the Company's response on March 24th 2010, according to which the Company's Board of Director found no cause or justification to filing and managing the suit and that the filing and management of such a suit is not in the Company's best interests, the Company hereby notes that on September 16 2010, an additional request was received from a shareholder according to which the Company was asked to once more consider its position on this issue, in light of the justified grounds he claims exists for a suit against the Directors. On October 26 2010 an additional discussion was held on the subject by the Board of Directors, and it was decided that there is no need to change the Company's decision in this regard. On November 1 2010, the response of the Chairman of the Company's Board of Directors was sent to the shareholder, which stated that after the Board had reconsidered the request, it was decided not to alter its March 24 2010 decision.

To Item 9.8.3 – Credit Frameworks

The Company's credit frameworks amounted to \$35 million as of September 30 2010, \$24 million of which were guaranteed frameworks.

To Item 9.8.4 Guarantees Against Collateral

With the drop in jet fuel prices below price levels defined by hedging agreements with international institutions, the Company was required to provide collateral to guarantee that hedging refunds to which it was obligated in accordance with its agreements with hedging institutions. As of September 30 2010 there was no request for such deposits. The hedging institutions provided the Company with unguaranteed frameworks to the amount of \$29 million.

To Item 9.8.5 – Loans for Unique Use

As of September 30 2010, the balance of loans from banking and other corporations, including short term borrowings, amounted to \$745.7 million.

To Item 9.10.2 – Restrictions on Nighttime Takeoffs from BGN

In 1998 the Ministry of Transportation decided to restrict BGN activity during nighttime hours. Due to the fact that El Al does not operate flights on Saturdays and Jewish holidays, El Al received approval to take off on the nights between Thursday and Friday as well as the nights before holidays and operated flights during these nights for years.

In May 2010 the municipality of Holon – the head of the BGN Surrounding Authorities Forum – filed a petition to the Supreme Court, against, *inter alia*, the Minister of Transportation, the Civil Aviation Authority and the Airports Authority. El Al was not named a respondent in this petition.

The petitioner petitioned, among other things, to reverse the decision of the Minister of Transportation from April 4 2010 and allowed the Airports Authority to open BGN for takeoffs between 1:40 and 5:50 AM (“the Restricted Hours”) on the basis of the claim that these flights would disturb the residents of municipalities in the BGN region.

On June 22 2010 the Court issued an injunction prohibiting the respondents from allowing takeoffs during the restricted hours, in the event of flights “resulting from airline operational needs and not due to the load on the airport” only. Following this injunction, no changes were made to El Al's flight schedule or takeoff permissions granted it.

On November 8 2010 the Court issued a ruling clarifying and amending the injunction in question, in which arrangements were set for the winter season, as follows: when a request is received to allow a takeoff outside the restricted hours which cannot be complied with due to the volume of traffic at BGN - the airline shall be offered a takeoff time outside the restricted hours. If the airline refuses to take off on the hour offered, it shall be offered a takeoff during the restricted hours as near as possible to their beginning or end; in exceptional cases, takeoffs can be approved between 02:00 and 05:00, this following a detailed and reasoned decision by the head of the Civil Aviation Authority, with a copy produced to the Court and to the petitioner.

Following the ruling in question, the Airports Authority announced that it would no longer permit El Al flights on the nights between Thursday and Friday and before holiday eves. In light of this, on November 10 2010 El Al filed a request to join the petition as a respondent and to clarify or revise the injunctions in such a manner so that they no longer apply to takeoffs in the night between Thursday and Friday and the night before Jewish holidays. On November 16 2010, the Court accepted El Al's request and ruled that the injunction regarding flights during the restricted hours would not apply to the special permission given El Al for specific takeoffs on the nights between Thursdays and Fridays and on the nights before holiday eves.

To Item 9.10.7 – Restrictions on Engine Air Pollution Levels

Pursuant to the Company's 2009 Periodic Report, the Company is preparing to provide European aviation authorities with a regular report on air pollution caused by it (fuel quality and amount) as required by airlines starting January 2010. 2010 is a significant year in the implementation of the reporting obligation and shall constitute the basis for the "pollution ceiling" set for the Company starting 2012.

Over the course of last quarter the Company put together a work plan, which includes studying the current situation and constructing a detailed work plan that will meet the requirements of the regulations on this matter.

To Item 9.11.2 (a) - Restrictions on and Supervision of the Corporation's Business - the Aviation Law, 1927

As of this report, the Knesset Economics Committee and the Civil Aviation Authority are deliberating on the proposed Aviation Bill, 2010. Likewise, the Civil Aviation Authority has presented the public with the proposed amendment to the Aviation Regulations (Aircraft Operation and Rules of Flight), 2010 as well as the proposed amendment to the Aviation Regulations (Aviation Worker Licenses), 2010. The Company has provided its response to the proposed regulations.

To Item 9.11.2.(i) – Limitations and Supervision of the Corporation's Business – Regulatory Arrangements – the Restriction of Business Law, 1988.

Pursuant to the immediate reports published by the Company regarding its entry into a framework agreement (the "**Framework Agreement**") with Maman – Cargo Terminals and Handling Ltd. ("**Maman**"), and regarding the announcements by the Israel Antitrust Authority (the "**Antitrust Authority**") on the matter of its position on the Framework Agreement, the Company reported that on September 13 2010 the Company received a letter from the Antitrust Authority, according to which the Authority confirmed that the wording of the clause (as detailed below) included in the draft addition to the Framework Agreement provided by the Company and Maman to the Antitrust Authority, is acceptable, and that after the parties sign the addition to the Framework Agreement including the clause in question, the Antitrust Authority will have no objections to the implementation of the Framework Agreement.

The clause of the addition draft to which the Israel Antitrust Authority refers in its letter sets various restrictions, as required by the Authority, on the Company's involvement in the affairs of a specific Maman Subsidiary, Laufer Aviation GHI Ltd., (the "**Subsidiary**") and on the transfer of certain information pertaining to the Subsidiary in question to the Company.

On September 19 2010 the Company and Maman signed an addition to the Framework Agreement, the signing of which constituted a term for the removal of the Antitrust Authority's objections to the implementation of the Framework Agreement.

On November 3 2010 Maman's special general meeting approved a material private offer, pursuant to which Maman's securities would be allocated to the Company in the following manner: up to 7,000,000 regular nominal value NIS 1.00 per share constituting up to 15% of Maman's issued and paid-up capital, as well as options exercisable as regular shares at a rate close to 10% of Maman's issued and paid-up capital. Following this, the Company was issued 2,837,837 regular Maman shares, constituting 7.5% of Maman's issued and paid-up capital. Furthermore, the general meeting approved the appointment of Mr. Amikam Cohen, Chairman of the Company's Board of Directors, to Maman's board of directors starting November 7 2010 and the appointment of Mr. Yehuda (Yudi) Levi, Deputy Chairman of the Company's Board of Directors, to Maman's Board of Directors, which is expected to come into effect on the completion of the third batch allocation, subject to the fact that on the date in question, the Company will hold over 10% of Maman's issued share capital. For further details on the impact of the Maman agreement on the Company's financial results, see Note 6.a to the Financial Statements.

To Item 9.11.2 (j) - Limitations and Supervision of the Corporation's Business - the Aviation Law, 1981

The Consumer Protection Regulations (Cancellation of Transactions), 2010, were published on September 14 2010 and will come into effect on December 14 2010, grant the consumer the right to cancel certain transactions and receive a refund, under the conditions detailed in the regulations. At this stage, and for a period of twelve months from the publication of the regulations, meaning on March 14 2011, tourism and aviation services outside of Israel are not covered by the regulations, and it was established that by the date in question the Ministry of Industry, Trade and Employment, which is concentrating treatment of the regulations, must formulate, in conjunction with the Ministry of Tourism and various elements active in the industry, a comprehensive arrangement regarding the cancellations of tourism and aviation services. Regarding domestic aviation services, including the flights on the routes to Eilat, the regulations will come into effect on December 14 2010, and according to them flight tickets can be cancelled within 14 days of the transaction so long as the cancellation is at least 7 non-rest days prior to the flight date.

To Item 9.11.10 – Regulations

IOSA (UATA Operational Safety Audit) standard inspections were recently conducted at the Company. The Company has complied with all requirements for the receipt of an extension to the Standards Association stamp granted in January 2009, and in October 2010 the Company received IOSA certification for a period of two years. This is an international standard in the area of airline operations, safety and QA. Likewise, starting 2008 the standard constitutes a condition for IATA membership. Receipt of the approval in question places the Company in the forefront of global airlines in terms of aviation safety.

To Item 9.12 – Essential Agreements

In November 2010 the Company signed a Framework Agreement with the State of Israel for the purchase of flight tickets for official trips by state employees and other official representatives, appointed by government units and offices.

The agreement shall remain in effect for two years, with an option to extend with the consent of both parties up to a maximum of two additional years and the right to revoke it at any time. In accordance with the agreement, the Company shall be given an advance based discount, during ticketing and payment, at rates depending on the type of class as well as other benefits, as set in the agreement.

To Item 9.14 – Legal Proceedings

Following that stated in the 2009 periodic report regarding the suit filed in June 2006 before the Tel Aviv District Labor court against the Company and against the State of Israel/Ministry of Finance by 94 plaintiffs who had been employed by the Company and who had retired early between 2001 and 2003 and who had petitioned to amend the retirement agreements in such a manner so as to note that the retiree would receive early pension pay including associated benefits up to the legal retirement age, instead of the age of 65. Alternately, the plaintiffs petitioned to cancel the retirement agreements. On October 14 2010 a partial ruling was issued, stating that early retirement agreements must be reinterpreted, so that instead of 65 years of age they shall be considered valid until 67. The partial ruling also stated that within 60 days of the ruling, basic agreed-upon calculation principles shall be submitted to calculate the sums. On October 26 2010 the Company filed a request to appeal the partial ruling before the National Labor Court. The Company has listed a provision for this claim in the Financial Statements, based on the advice of its legal counsel.

In October 2010 a suit was filed before the Rishon Lezion Magistrate's Court by the Israel Aviation Authority against the Company to the amount of 1.8 million NIS; in its suit, the IAA claimed that as part of a project for the construction of a new sewage

treatment plant in BGN, the Company undertook to construct preliminary facilities and perform sewage treatment up to a specific date, so that the Company facilities may be connected to the new facility. The claim was that the Company had violated its obligations and as a result, the IAA was forced to continue operating old oxygenation ponds, causing it costs and damages. The Company is studying the suit and is preparing a statement of defense.

El Al Israel Airlines Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending September 30 2010

We hereby present the Report of the Board of Directors on the State of the Corporation's Affairs for the period ending September 30 2010.

The third quarter of 2010 was characterized by increased demand both in passenger traffic and in cargo shipping.

Total passenger traffic through Ben Gurion Airport in the third quarter of 2010 amounted to 3.8 million passengers compared to 3.6 million passengers in the third quarter of 2009, a 5.7% increase, while airborne cargo increased by 10.4% to 70.3 thousand tons compared to 63.7 thousand tons in the same quarter last year.

The Group flew some 1,284 thousand passenger legs and 23.2 thousand tons of cargo in this quarter, a 5.7% and 16.5% increase, respectively, compared to the same quarter last year.

The Company's market share in international scheduled and charter flights amounted to 34.0% compared to 34.7% in the same quarter last year and the average load factor for the quarter was 83.8% compared to 85.1% in the same quarter last year.

Key exogenous factors impacting the Company's operating results in the reported quarter compared to the same quarter last year were: a 16% increase in the average price of jet fuel in the Mediterranean Basin, a 7.3% average drop in Libor interest rates and a 0.9% revaluation of the average rate of the NIS vs. the USD.

The Company's activity in the third quarter developed in a number of areas. In August 2010 the Company began operating 3 daily flights on the BGN-Eilat route. In its first two months of activity on the route, the Company flew 37,000 passenger legs, with its share of domestic traffic to Eilat being 16%.

In August, the Company signed a cooperation agreement with Jet Blue Airlines, which entered into effect in November 2010, allowing the Company to offer a variety of new continuing destinations throughout the U.S, Latin America and the Caribbean.

In September 2010 the Antitrust Authority gave its approval to carry out a framework agreement with Maman (see Note 6.a to the Financial Statements).

In the third quarter of 2010 the Company saw an operational profit of \$55.6 million compared to an operational profit of \$23.8 million in the comparable quarter last year. The net profit for the reported period amounted to a total of \$42.5 million compared to profits of \$12.3 million in the third quarter of 2009. Net profit for the first nine months of 2010 amounted to \$40.8 million, compared to a loss of \$47.3 million in the same period last year.

In the third quarter of 2010 the Company saw a cash flow from operating activities to the amount of \$46.6 million (a negative cash flow of \$18.8 million in the third quarter of 2009).

The Group's cash balances, cash equivalents and short term deposits as of September 30 2010 amounted to \$197.7 million, an \$83.1 million increase relative to balances as of December 31 2009 while equity as of September 30 2010 amounted to a total of \$210.9 million compared to \$123.8 million on December 31 2009.

1. General

1.1 Changes in International Standards (IFRS)

Starting from the first quarter of 2009, the Company has applied in its financial statements 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 regarding the standards and the impact of their application to the Group's Financial Statements, see Note 4 to the December 31 2009 Financial Statements. Regarding the early adoption of International Accounting Standard IFRS 9, see Note 3a. to the September 30 2010 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 by way of scheduled flights, and on the matter of the transport of passengers, also on charter flights between Israel and other countries and starting August 2010, on domestic flights as well. 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 and domestic civil aviation industry, and inbound and outbound tourism, which is characterized by a seasonal nature and strong competition, which grows stronger in periods of excess 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 belly 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 and some 50 foreign charter airlines, 30 of which operate flights on a regular basis. Revenues of this segment constituted 88.9% of the Group's total revenues in the third 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 carry cargo in their bellies. Revenues of this segment constituted 3.3% of the Group's total revenues in the third quarter of 2010.

The Group has additional revenues that are not allocated to the major operating segments, accounting for 7.8% of total revenues in the third quarter of 2010.

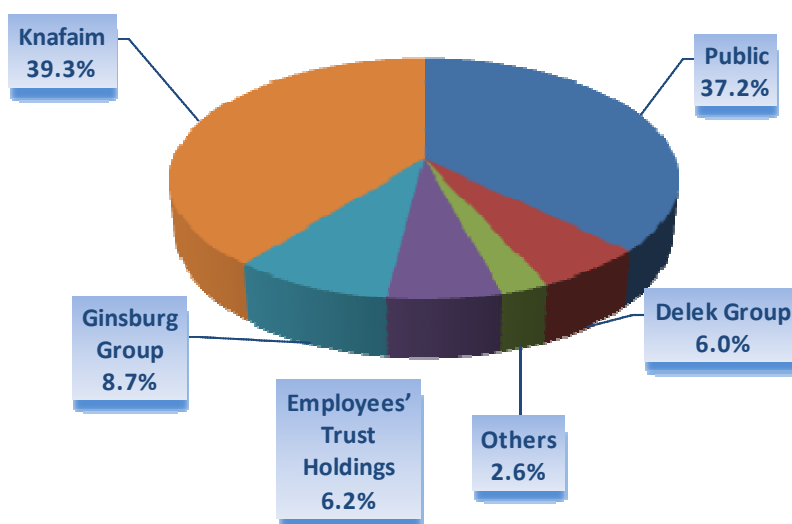
For further information on the Company's fields of activity, see Section a.5 of the Report of the Board of Directors and Note 37 to the December 31 2009 Financial Statements.

1.3 *Holdings of Company Shareholders*

As of September 30, 2010, holdings in the Company were:

Knafaim Holdings Ltd. ("Knafaim") – 39.3%, the Ginsburg Group – 8.7%, a Company employee corporation called "Holdings in Trust of El Al Employees Ltd." ("Employees Corporation") – 6.2%, the Delek Group - 6.0%, others – 2.6%, the public – 37.2%.

Ratio of Holdings in Company Shares as of September 30, 2010 (undiluted):



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

a.1 Financial Position (Consolidated Statements)

	30.09.2010 in thousands US dollars	31.12.2009 in thousands US dollars	change in thousands US dollars	
				%
Current assets				
Cash and cash equivalents	159,483	106,687	52,796	49%
Short-term deposits	38,254	7,933	30,321	382%
Restricted deposits	1,500	7,003	(5,503)	(79%)
Trade receivables	150,279	112,086	38,193	34%
Other receivables	17,600	16,155	1,445	9%
Derivative financial instruments	16,546	11,206	5,340	48%
Prepaid expenses	28,245	24,873	3,372	14%
Inventories	15,426	21,947	(6,521)	(30%)
Non-current assets				
Long-term bank deposits	1,784	1,839	(55)	(3%)
Investment in affiliated companies	648	648	-	0%
Investments in another company	4,034	1,357	2,677	197%
Derivative financial instruments	5,623	2,255	3,368	149%
Fixed assets, net	1,246,457	1,312,930	(66,473)	(5%)
Intangible assets, net	7,923	7,504	419	6%
Assets due to employee benefits	35,107	34,501	606	2%
Prepaid expenses	2,505	2,578	(73)	(3%)
Total Assets	1,731,414	1,671,502	59,912	4%
Current liabilities				
Short-term borrowings and current maturities	154,532	106,016	48,516	46%
Trade payables	162,235	128,970	33,265	26%
Other payables	52,748	54,444	(1,696)	(3%)
Provisions	61,534	57,217	4,317	8%
Derivative financial instruments	6,258	55,643	(49,385)	(89%)
Employee benefit obligations	97,429	81,379	16,050	20%
Unearned revenues	235,179	204,444	30,735	15%
Non-current liabilities				
Loans from financial institutions	581,297	704,194	(122,897)	(17%)
Employee benefit obligations	62,674	65,835	(3,161)	(5%)
Other payables	10,643	13,318	(2,675)	(20%)
Derivative financial instruments	20,238	20,135	103	1%
Deferred tax	24,169	5,313	18,856	355%
Unearned revenues	51,598	50,813	785	2%
Shareholders' equity	210,880	123,781	87,099	70%
Total liabilities and equity	1,731,414	1,671,502	59,912	4%

The main changes in asset, liability and shareholders' equity items as of September 30 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 regular repayment of loans. For further details, see a.7 below.
- A decrease in restricted deposits, mainly as a result of the repayment of jet fuel hedging transactions in the reported period..
- The increase in trade receivables, derived mainly from the seasonal increase in passenger sales.
- 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 \$58.0 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 as of the balance sheet date. The increase in fair value of derivative financial instruments was expressed in a \$45.7 million increase (net after tax) in the capital reserve in respect of cash flow hedges recognized directly in equity, in the \$15.0 million increase in the deferred tax liability and offset by the \$2.7 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 and prepaid expenses for aircraft leases.
- The decrease in inventories largely derived from the decrease in jet fuel reserves.

Non-Current Assets

- Investment in other companies increased as a result of the receipt of the first batch of Maman's share capital. For further details see Note 6.a to the Financial Statements.
- Fixed assets decreased mainly due to depreciation costs and the consumption of parts and accessories in the reported period, offset by the investments made in the period.

Current liabilities

- Short-term credit balances increased mainly as a result of the increase in current maturities of bank loans (see Note 6h to the Financial Statements), offset by the repayment of short-term bank borrowings.
- Trade payable balances increased mainly as a result of a seasonal increase in activity.

- Provision balances increased mainly due to regular updates and adjustments to currency differences.
- Liabilities due to employee benefits increased mainly as a result of the payment of the December 2009 salary on December 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.
- Unearned revenues increased mainly as a result of a seasonal increase in passenger sales.

Non-Current Liabilities

- The balance of loans from financial institutions decreased as a result of resorting loans to the current maturities item including a "balloon" loan from a banking institution to the amount of \$63.8 million the repayment date of which is in August 2011 (see Note 6h to the Financial Statements) and the current repayments of loans.
- Non-current employee benefit liabilities decreased mainly as a result of payments made for an early retirement plan, while at the same time these liabilities increased, as a result of the revaluation of the NIS vs. the USD which increased the liability in dollar terms.
- The decrease in other payables occurred mainly as a result of payment due to the U.S. cargo claim.
- The increase in the deferred taxes item derives mainly from the increase in fair value of hedging agreements recognized as hedging, as well as due to deferred tax expenses listed as a result of the profits from the first nine months of 2010.

Shareholders' Equity

- The increase in the Company's shareholders' equity is primarily due to the increase in net profits in the period and in the capital reserves due to cash flow hedging, as a result of the increase in fair value of hedging agreements recognized as hedging, as a result of the payment of hedging agreements reaching conclusion as well as the positive fair value of hedging agreements carried out during the period.

As of September 30 2010, the Company has a working capital deficit of \$342.6 million, compared with a deficit of \$380.2 million on December 31, 2009. The Company's current ratio as of September 30 2010 amounted to 55.5% compared to 44.7% as of December 31 2009. Among the reasons for the decrease in the working capital deficit, one might note the increase in cash and short-term deposits as well as the increase in customer balances and decrease in liabilities due to derivative financial instruments. On the other hand, current maturities of loans from banks, trade payables, employee benefit liabilities and unearned revenues increased. The working capital deficit is due to the Company's current liabilities, which consist of three material elements: prepaid income from the sale of airline tickets including airport taxes, unearned revenues from frequent flyer clubs, as well as employee vacation liabilities. 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**

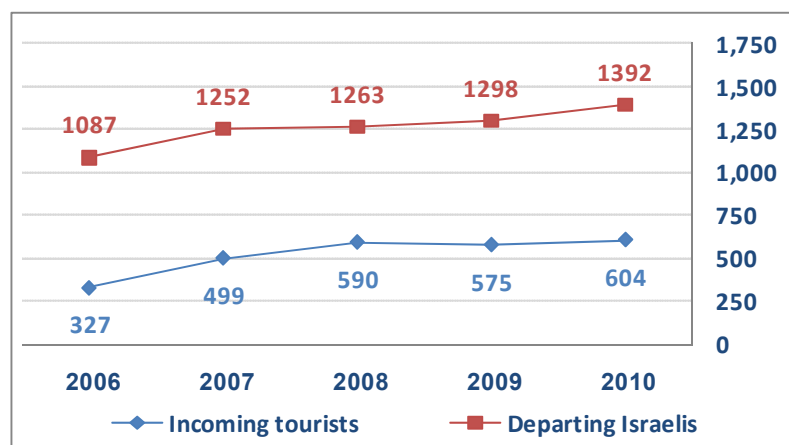
Passenger and cargo traffic at BGA	Jul - Sep 2010	Jul - Sep 2009	change	
	in thousands	in thousands	in thousands	%
Incoming tourists *	604	575	29	5%
Departing Israelis *	1,392	1,298	94	7%
Cargo import - tons **	34	31	3	10%
Cargo export - tons **	37	33	4	11%

Passenger and cargo traffic at BGA	Jan - Sep 2010	Jan - Sep 2009	change	
	in thousands	in thousands	in thousands	%
Incoming tourists *	1,737	1,492	245	16%
Departing Israelis *	2,880	2,676	204	8%
Cargo import - tons **	101	86	15	16%
Cargo export - tons **	125	109	16	15%

* **Source:** Central Bureau of Statistics.

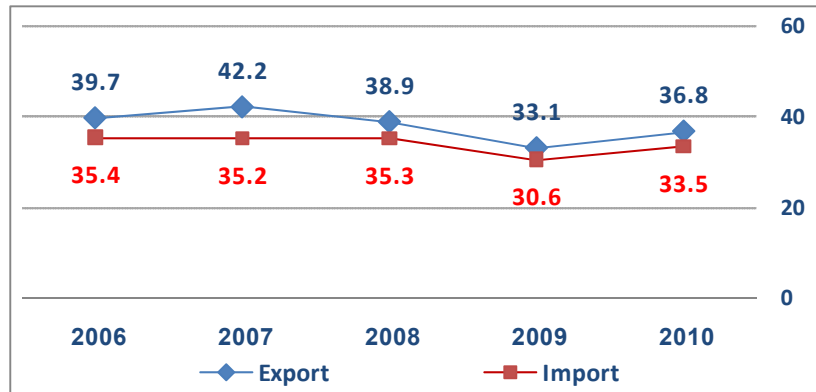
** Does not include cargo in transit.

Incoming tourist & departing Israeli traffic, in the third quarters of the following years (In thousands):



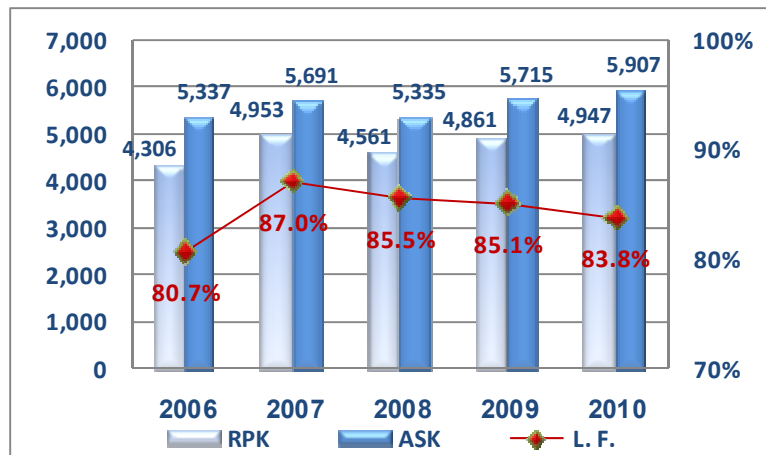
* **Source:** Central Bureau of Statistics.

Imports & exports of cargo by air to and from Israel, in the third quarters of the following years (In thousands of tons):



* Source: The Civil Aviation Authority.

Operational indices, for the third quarters of the following years (in millions):



a.2.2 Company Operating Data*

	Jul - Sep 2010	Jul - Sep 2009	change
Passenger leg (scheduled and chartered) - in thousands	1,284	1,215	6%
RPK (scheduled) - in millions	4,947	4,861	2%
ASK (scheduled) - in millions	5,907	5,715	3%
Load factor (scheduled)	83.8%	85.1%	(2%)
The Company's market share (scheduled and chartered)	34.0%	34.7%	(2%)
Flown cargo, in thousand tons	23.2	19.9	17%
RTK - in millions	124.5	104.2	19%
Weighted flying hours (including leased equipment) - in thousands (*)	45.9	43.9	5%
<u>Average man-years (EI AL only):</u>			
Permanent	3,827	3,774	1%
Temporary	2,285	2,278	0%
Total	6,112	6,052	1%

	Jan - Sep 2010	Jan - Sep 2009	change
Passenger leg (scheduled and chartered) - in thousands	3,117	2,915	7%
RPK (scheduled) - in millions	13,120	12,440	5%
ASK (scheduled) - in millions	16,044	15,407	4%
Load factor (scheduled)	81.8%	80.7%	1%
The Company's market share (scheduled and chartered)	36.7%	37.6%	(2%)
Flown cargo, in thousand tons	74.1	63.6	17%
RTK - in millions	391.9	315.3	24%
Weighted flying hours (including leased equipment) - in thousands (*)	123.8	118.9	4%
<u>Average man-years (EI AL only):</u>			
Permanent	3,821	3,782	1%
Temporary	2,063	2,081	(1%)
Total	5,884	5,863	0%
Aircraft in operation - end of period - number of units			
	39	38	1
Average age of owned fleet at the end of the period - in years			
	13.2	12.8	0.4

* Operating data refers both to international and domestic activity.

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.

a.3 Statement of Operations Data For the Quarter Ended September 30 2010 (Consolidated Financial Statements):

Key factors that influenced the business results in the three month period ended September 30, 2010 compared with the same period last year:

	Jul - Sep 2010		Jul - Sep 2009		change	
	in thousands US dollars	% of operating revenues	in thousands US dollars	% of operating revenues	in thousands US dollars	%
Operating revenues	561,203	100%	496,059	100%	65,144	13%
Operating expenses	(426,182)	(75.9%)	(400,654)	(80.8%)	(25,528)	6%
Gross profit	135,021	24.1%	95,405	19.2%	39,616	42%
Selling expenses	(54,596)	(9.7%)	(49,343)	(9.9%)	(5,253)	11%
General and administrative expenses	(23,189)	(4.1%)	(21,137)	(4.3%)	(2,052)	10%
Other operating expenses, net	(1,599)	(0.3%)	(1,147)	(0.2%)	(452)	39%
Operating profit before financing	55,637	9.9%	23,778	4.8%	31,859	134%
Financing expenses	(12,186)	(2.2%)	(14,249)	(2.9%)	2,063	(14%)
Financing income	3,613	0.6%	1,167	0.2%	2,446	210%
Company's equity in earnings of affiliates, net	-	0.0%	45	0.0%	(45)	
Profit before income taxes	47,064	8.4%	10,741	2.2%	36,323	338%
Tax benefit (income taxes)	(4,602)	(0.8%)	1,563	0.3%	(6,165)	
Profit for the period	42,462	7.6%	12,304	2.5%	30,158	245%

The Company's operating data, as it appears in Section a.2.2. above, indicates that an increase has occurred in the Company's activity in the first nine months and in Q3 of 2010 compared to corresponding periods last year both in terms of numbers of passengers and amounts of cargo and in weighted flight hours.

The load factor in passenger aircraft and average worker years remained essentially unchanged. This data, to which were also added increases in yield per passenger km and per ton of cargo, led to improvements in the Company's operating results, despite the increase in jet fuel prices and the revaluation of the average rate of the NIS relative to the USD which increased the Company's total expenses.

Operating revenues – operating revenues increased 13.1% compared to the same quarter last year. Passenger revenues increased both as a result of 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 and the increase in yield per ton kilometer.

Operating expenses – the third quarter of 2010 saw a 6.4% 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 and salary expenses as detailed below, from the increase in expenses due to aircraft leases as well as the increase in activity in the reported period. At the same time, the share of operating expenses from turnover decreased from 80.8% in the third quarter of 2009 to 75.9% in the reported quarter. Note that in the reported quarter, the Company listed receipts to the amount of \$3.6 million for discounts received pursuant to the Maman transaction, and an

additional \$2.8 million for the allocation of 3.75% of Maman's shares to the Company free of charge. These sums reduced the Airport Fees and Services item under operating expenses in the Company's Statement of Operations. (see Note 6.a to the Financial Statements).

Gross profits increased from 19.2% of turnover in the third quarter of 2009 to 24.1% in the reported quarter.

- Salary expenses in the third quarter of 2010 increased relative to the same period last year, mainly as a result of the increase in activity. 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 16% compared to the same quarter last year, while the Company's effective price after hedging activity increased by 13.5%. In the reported quarter, the Company made jet fuel hedging payments to the amount of \$17.3 million, which were charged to the statement of operations report. The change in the fair value of transactions assigned to the statement of operations report reduced jet fuel expenses by \$0.3 million (in the third quarter of 2009 jet fuel expenses increased due to hedging agreements by \$21.9 million and decreased as a result of changes in fair value charged to the statement of operations report to the amount of \$3.3 million). In addition, jet fuel expenses increased as a result of the increase in activity.

For further information on jet fuel price hedging see Note b.1. (3) below.

Selling expenses – selling expenses increased compared to the same quarter last year, mainly as a result of the increase in distribution expenses as a result of the increase in activity. The rate of sales expenses from turnover amounted to 9.7% compared to 9.9% of turnover in the same quarter last year.

Administrative and general expenses – administrative and general expenses increased relative to the same quarter last year, primarily due to the one-time listing of an arrangement with the Company's subsidiary Sabre, which reduced expenses for the third quarter of 2009, but at the same time their share of the Company's turnover reached 4.1% compared to 4.3% in the third quarter of 2009.

Other revenues and expenses - over the course of the reported quarter the Company listed other net expenses to the amount of \$1.6 million, mainly as a result of changes in the dollar value of liabilities due to early retirement plans. The Company listed other expenses to the amount of \$1.1 million in the third quarter of 2009 for the same reason.

Operational profit in the reported quarter amounted to \$55.6million, 9.9% of turnover, compared to an operational profit in the comparable period last year of \$23.8 million, 4.8% of turnover.

Financing expenses - the decrease in financing expenses in the third quarter of 2010 compared to the corresponding quarter last year derives mainly from the decrease in Libor rates and the decrease in the Company's loan portfolio, which reduced interest payments on the Company's loans as well as from the decrease in bank commissions and exchange rate differentials. As for interest rate and exchange rate hedging, see Notes b.1.(4) and b.1.(5) below.

Financing income - an increase occurred in the Company's financing income, mainly due to exchange rate hedging.

Pre-tax profit in the third quarter of 2010 amounted to \$47.1 million compared to a pre-tax profit of \$10.7 million in the corresponding quarter last year.

Net profit amounted to \$42.5 million, 7.6% of turnover, compared to a profit of \$12.3 million, 2.5% of turnover, on the third quarter of 2009.

Key factors that influenced the business results in the nine month period ended September 30, 2010 compared with the same period last year:

	<u>Jan - Sep</u> 2010		<u>Jan - Sep</u> 2009		<u>change</u>	
	in thousands US dollars	% of operating revenues	in thousands US dollars	% of operating revenues	in thousands US dollars	%
Operating revenues	1,480,223	100%	1,242,158	100%	238,065	19%
Operating expenses	(1,190,710)	(80.4%)	(1,081,695)	(87.1%)	(109,015)	10%
Gross profit	289,513	19.6%	160,463	12.9%	129,050	80%
Selling expenses	(149,557)	(10.1%)	(138,377)	(11.1%)	(11,180)	8%
General and administrative expenses	(69,810)	(4.7%)	(64,268)	(5.2%)	(5,542)	9%
Other operating expenses, net	(4,221)	(0.3%)	(986)	(0.1%)	(3,235)	328%
Operating profit (loss) before financing	65,925	4.5%	(43,168)	(3.5%)	109,093	
Financing expenses	(27,839)	(1.9%)	(24,868)	(2.0%)	(2,971)	12%
Financing income	6,886	0.5%	1,885	0.2%	5,001	265%
Company's equity in earnings of affiliates, net	-	0.0%	81	0.0%	(81)	
Profit (Loss) before income taxes	44,972	3.0%	(66,070)	(5.3%)	111,042	
Tax benefit (income taxes)	(4,200)	(0.3%)	18,790	1.5%	(22,990)	
Profit (Loss) for the period	40,772	2.8%	(47,280)	(3.8%)	88,052	

Operating revenues – operating revenues in the first nine months of 2010 increased by 19.2% compared to the corresponding period last year. The increase in passenger's revenues was both from the increase in passenger traffic and the increase in yield per passenger kilometer. Cargo shipping revenues increased, mainly as a result of the increase in cargo traffic and the increase in yield per ton kilometer. The Group's other revenues increased, mainly as a result of maintenance services provided to other airlines.

Operating expenses – the first nine months of 2010 saw a 10.1% 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 and salary expenses as detailed below, while at the same time the rate of operating expenses from turnover dropped from 87.1% in the first nine months of 2009 to 80.4% in the reported period, mainly as a result of the increase in revenues as detailed above. Note that in the reported period, the Company listed receipts to the amount of \$3.6 million for discounts received pursuant to the Maman transaction, and an additional \$2.8 million for the allocation of 3.75% of Maman's shares to the Company free of charge. These sums reduced the Airport Fees and Services item under operating expenses in the Company's Statement of Operations. (see Note 6.a to the Financial Statements).

Gross profits increased from 12.9% of turnover in the first nine months of 2009 to 19.6% in the reported period.

- Salary expenses in the first nine months of 2010 increased relative to the same period last year. Most of the increase derives from the average of 5.5% revaluation of the NIS relative to the dollar, which increased salary expenses in dollar terms, and from the increase in activity. The average number of employees remained almost unchanged. Regarding the

impact of the changes in the NIS/USD rate of exchange on the Company's employee benefit obligations, see Note a.4 below.

- The Company's jet fuel expenses increased mainly as a result of the increase in jet fuel prices in the reported period relative to the corresponding period last year. The market prices for jet fuel in the Med region increased by an average of 31.8% compared to the first nine months of 2009, while the Company's effective price after hedging activity increased by 19.1%. In the reported period, the Company made jet fuel hedging payments to the amount of \$55.7 million, which were charged to the statement of operations report. Furthermore, 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 nine months of 2009 jet fuel expenses due to hedging agreements increased by \$91.8 million and decreased as a result of changes in fair value to the amount of \$19.9 million, which were charged to the statement of operations report). In addition, jet fuel expenses increased as a result of the increase in activity.

For further information on jet fuel price hedging see Note b.1.(3) below.

Selling expenses – selling expenses increased compared to the same period last year, mainly as a result of the increase in distribution expenses as a result of the increase in activity and the increase in payments to global distribution systems (GDS). At the same time the share of distribution costs from turnover decreased. The rate of sales expenses from turnover amounted to 10.1% compared to 11.1% of turnover in the same period last year.

Administrative and general expenses – administrative and general expenses increased relative to the first nine months of 2009, primarily due to the increase in salary expenses, but at the same time their share of the Company's turnover reached 4.7% compared to 5.2% in the first nine months of 2009.

Other revenues and expenses - over the course of the reported period the Company listed other net expenses to the amount of \$4.2 million, mainly as a result of writing off an investment in an unrealized software module (see Note 6.d to the Financial Statements) and as a result of changing the exchange rates of the Company's early retirement obligations. The Company listed other expenses to the amount of \$1.0 million in the first nine months of 2010.

Operational profit for January-September 2010 amounted to \$65.9 million, 4.5% of turnover, compared to an operational loss in the comparable period last year of \$43.2 million, (-3.5%) of turnover.

Financing expenses - the increase in financing expenses in the first nine months of 2010 relative to the corresponding period last year derives mainly from the increase in interest hedging expenses, which was offset due to the drop in interest on the Company's loans, due to the drop in Libor interest and a decrease in the Company's loan portfolio.

Financing revenues - an increase occurred in the Company's financing revenues, mainly due to exchange rate hedging. As for interest rate and exchange rate hedging, see section b.1.(4) and b.1.(5) below.

Pre-tax profit in January-September 2010 amounted to \$45.0 million compared to a pre-tax loss of \$66.1 million in the corresponding period last year.

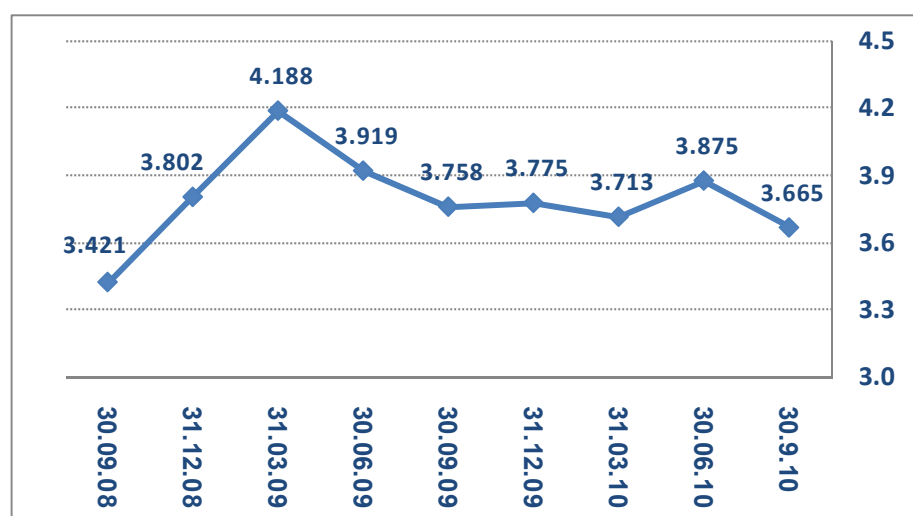
Net earnings for the period amounted to \$40.8 million, 2.8% of turnover, compared to a loss of \$47.3 million, (-3.8%) of turnover in the corresponding period last year.

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

In the three month period ended September 30, 2010 the exchange rate of the shekel increased 5.4% against the dollar, compared to a 4.1% increase in the exchange rate of the shekel against the dollar in the same period last year.

In the nine month period ended September 30, 2010 the exchange rate of the shekel increased 2.9% against the dollar, compared to a 1.2% increase in the exchange rate of the shekel against the dollar in the same period last year.

US Dollar - NIS Exchange Rate:



The Company has a net obligation to its employees for severance pay, retirement plans, sick pay, and vacation pay as of September 30, 2010 to the amount of \$77 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 ended September 30, 2010 saw expenses for this element to the amount of \$4.2 million, compared with the same period last year, in which expenses for this element amounted to \$2.9 million.

The first nine months of 2010 saw expenses for this element to the amount of \$2.5 million, while the expenses for this element decreased by \$16,000 in the same period last year.

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 September 30:	<u>Before</u>		<u>After</u>	
	<u>neutralizing the exchange-rate effect</u>			
	<u>on the accrued severance pay</u>			
	2010	2009	2010	2009
	(in thousands US dollars)			
Operating expenses	426,182	400,654	423,645	398,910
Gross profit	135,021	95,405	137,558	97,149
<i>Gross profit rate</i>	24.1%	19.2%	24.5%	19.6%
Selling, general and administrative expenses	77,785	70,480	77,442	70,251
Other operating expenses, net	(1,599)	(1,147)	(262)	(222)
Operating profits before financing expenses	55,637	23,778	59,854	26,676
<i>Operating profits rate before financing</i>	9.9%	4.8%	10.7%	5.4%
Profit for the period	42,462	12,304	46,679	15,202
<i>profit for the period rate</i>	7.6%	2.5%	8.3%	3.1%

Nine-month period ended September 30:	<u>Before</u>		<u>After</u>	
	<u>neutralizing the exchange-rate effect</u>			
	<u>on the accrued severance pay</u>			
	2010	2009	2010	2009
	(in thousands US dollars)			
Operating expenses	1,190,710	1,081,695	1,189,341	1,081,470
Gross profit	289,513	160,463	290,882	160,688
<i>Gross profit rate</i>	19.6%	12.9%	19.7%	12.9%
Selling, general and administrative expenses	219,367	202,645	219,183	202,711
Other operating expenses, net	(4,221)	(986)	(3,241)	(1,161)
Operating profits (loss) before financing expenses	65,925	(43,168)	68,458	(43,184)
<i>Operating profits (loss) rate before financing</i>	4.5%	(3.5%)	4.6%	(3.5%)
Profit (Loss) for the period	40,772	(47,280)	43,305	(47,296)
<i>Profit (Loss) for the period rate</i>	2.8%	(3.8%)	2.9%	(3.8%)

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.

In the reported year, the Company's Management has decided that in determining the results of the reported operating segments, a number of components that are not a 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 first nine months and third quarter of 2010 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 income and results by operating segments:

For Three-month period ended :					
30.09.2010	<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	498,724	18,251	11,054	33,174	561,203
inter-segment revenues	-	-	30,962	(30,962)	-
Total segment revenues	498,724	18,251	42,016	2,212	561,203
segment results	<u>95,158</u>	<u>(1,153)</u>	<u>10,356</u>		104,361
Unassigned expenses					(48,724)
Operating profit before financing					55,637
Financing expenses					(12,186)
Financing income					3,613
Company's equity in earnings of affiliates, net					-
Profit before income taxes					47,064
Income taxes					(4,602)
Profit for the period					42,462

For Three-month period ended :					
30.09.2009	<u>passenger</u> <u>aircraft</u>	<u>cargo</u> <u>aircraft</u>	<u>others</u>	<u>Adjustment</u>	<u>Total</u> <u>consolidated</u>
in thousands US dollars					
operating revenues					
revenue from external customers	443,172	12,042	11,514	29,331	496,059
inter-segment revenues	-	-	27,823	(27,823)	-
Total segment revenues	443,172	12,042	39,337	1,508	496,059
segment results	<u>64,854</u>	<u>(6,857)</u>	<u>9,466</u>		67,463
Unassigned expenses					(43,685)
Operating profit before financing					23,778
Financing expenses					(14,249)
Financing income					1,167
Company's equity in earnings of affiliates, net					45
Profit before income taxes					10,741
Tax benefit					1,563
Profit for the period					12,304

For Nine-month period ended :					
30.09.2010	<u>passenger</u> <u>aircraft</u>	<u>cargo</u> <u>aircraft</u>	<u>others</u>	<u>Adjustment</u>	<u>Total</u> <u>consolidated</u>
in thousands US dollars					
operating revenues					
revenue from external customers	1,324,886	57,750	31,548	66,039	1,480,223
inter-segment revenues	-	-	64,192	(64,192)	-
Total segment revenues	1,324,886	57,750	95,740	1,847	1,480,223
segment results	<u>189,174</u>	<u>(2,021)</u>	<u>24,869</u>		212,022
Unassigned expenses					(146,097)
Operating profit before financing					65,925
Financing expenses					(27,839)
Financing income					6,886
Company's equity in earnings of affiliates, net					-
Profit before income taxes					44,972
Income taxes					(4,200)
Profit for the period					40,772

For Nine-month period ended :					
30.09.2009	<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	1,112,227	43,178	30,098	56,655	1,242,158
inter-segment revenues	-	-	53,662	(53,662)	-
Total segment revenues	1,112,227	43,178	83,760	2,993	1,242,158
segment results	<u>71,223</u>	<u>(21,500)</u>	<u>22,855</u>		72,578
Unassigned expenses					(115,746)
Operating loss before financing					(43,168)
Financing expenses					(24,868)
Financing income					1,885
Company's equity in earnings of affiliates, net					81
Loss before income taxes					(66,070)
Tax benefit					18,790
Loss for the period					(47,280)

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	<u>112,453</u>	<u>(27,457)</u>	<u>27,457</u>		112,453
Unassigned expenses					(187,421)
Operating loss before financing					(74,968)
Financing expenses					(30,297)
Financing income					3,999
Company's equity in earnings of affiliates, net					442
Loss before income taxes					(100,824)
Tax benefit					24,524
Loss for the year					(76,300)

Revenues in the nine and three month periods ending September 30 2010 increased in all operating segments, and the results for all segments improved, this alongside the improvement in the Company's profitability as explained in Chapter a.3 of this report.

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 September 30 2010 compared to the same period last year is:

	Jul - Sep 2010 in thousands US dollars	Jul - Sep 2009 in thousands US dollars	change in thousands US dollars
Cash flows from operating activities	46,575	(18,792)	65,367
Cash flows used for investing activities	(41,280)	(17,819)	(23,461)
Cash flows used for financing activities	(21,579)	(19,890)	(1,689)
Net increase in cash and cash equivalents	(16,284)	(56,501)	40,217

Operating Activities

The Group received a cash flow from operating activity to the amount of \$46.6 million in the quarter ending September 30 2010, compared to a negative cash flow from operating activity to the amount of \$18.8 million in the same quarter last year. The change derives mainly from the increase in pre-tax profits in the reported period compared to the corresponding quarter last year, in employee benefit obligations and changes in asset and liability items.

Investment Activities

In the third quarter of 2010, the Company invested a net sum of \$41.3 million. Investment in net short term deposits amounted to \$30.5 million and investment in fixed and intangible assets amounted to \$11.0 million.

In the third quarter of 2009, the Company invested \$17.8 million in investment activity, mainly in the purchase of fixed and intangible assets to the amount of \$15.5 million and from the increase in net short-term deposits to the amount of \$12.3 million, offset by the proceeds from the realization of restricted deposits to the amount of \$9.8 million.

Financing Activities

In the third quarter of 2010 the Company used \$21.6 million for financing activity, for the redemption of long-term loans and the repayment of short-term bank credit.

In the third quarter of 2009 the Company used \$19.9 million for financing activity, mainly as a result of the redemption of long-term loans

Movement in cash flow for the nine month period ending September 30 2010 compared to the same period last year is:

	Jan - Sep 2010 in thousands US dollars	Jan - Sep 2009 in thousands US dollars	change in thousands US dollars
Cash flows from operating activities	183,301	6,126	177,175
Cash flows used for investing activities	(54,452)	(32,382)	(22,070)
Cash flows from (used for) financing activities	(76,053)	74,326	(150,379)
Net increase in cash and cash equivalents	52,796	48,070	4,726

Operating Activities

The Group received a cash flow from operating activity to the amount of \$183.3 million in the nine months ending September 30 2010 compared to a cash flow from operating activity to the amount of \$6.1 million in the same period last year. The change derives mainly from the profit before tax in the first nine months of 2010 compared to the loss before tax in the corresponding period last year, from non-cash flow changes in the fair value of financial derivatives through gain/loss and from changes in asset and liability items..

Investment Activities

In the first nine months of 2010, the Company invested a net sum of \$54.5 million. Investment in fixed and intangible assets amounted to \$32.3 million and the increase in short-term deposits amounted to 30.3 million. On the other hand, the Company received \$5.5 million from the realization of restricted deposits and \$2.5 million from the realization of fixed assets.

In the January-September period of 2009, the Company used \$32.4 million for investment activity, mainly in the purchase of fixed and intangible assets to the amount of \$167.6 million, largely for the purchase of 3 737-800 aircrafts, and a \$12.2 million increase in short-term deposits, offset by the proceeds from the realization of restricted deposits to the amount of \$124.5 million and proceeds from the sale of fixed assets to the amount of \$22.6 million.

Financing Activities

In the first nine months of 2010 the Company used \$76.1 million for financing activity, mainly for the redemption of long-term loans to the amount of \$51.9 million and the repayment of short-term bank credit to the amount of \$26.6 million. On the other hand, the Company received loans to the amount of \$2.5 million in this period.

In the first nine months of 2009 the Company derived \$74.3 million from financing activities, mainly as a result of loans to the amount of \$113.3 million for the purchase 737-800 aircrafts and from the receipt of short-term bank credit to the amount of \$14.7 million, net, offset by the repayment of long-term loans to the amount of \$46.5 million and payments for loan recruitment expenses to the amount of \$7.2 million.

In total the balance of cash and cash equivalents and short term deposits for September 30 2010 increased by \$52.8 million and reached a total of \$159.5 million, compared to \$106.7 million as of December 31 2009.

b. Market Risk Exposure and Management

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 change in the price of a gallon of jet fuel during an entire year influences 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 \$6.4 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 and payments to local suppliers 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 euros, 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 around the world, due to exceptional security events, and to the excess supply of seats on airlines around the world. For further details, see Note 16.g. and note 22.g.1. to the December 31 2009 Financial Statements.

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 is currently studying its jet fuel hedging policy. As of the publication of the Financial Statements, the Company is hedging short of its existing policy.

The Company's policy with respect to interest hedging is to hedge 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. As of this report, the Company is hedged according to the policy in place for 2010 to 2011, for 2012 the Company is insufficiently hedged and from 2013 on the Company is not hedged.

The Company's policy with respect to exchange rates is to hedge up to half of its shekel exposure for up to 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 September 30, 2010, the Company entered into several agreements in order to hedge jet fuel prices, at 53% of expected consumption for October-December 2010, 35% of expected consumption in 2011 and 20% of expected consumption in the first quarter of 2012. These transactions are recognized as hedging agreements for accounting purposes. The fair value of all jet fuel hedging instruments as of September 30 2010 is \$12.1 million, presented in the Financial Statements in the framework of current assets and non-current assets and under current liabilities under "Derivative Financial Instruments". The Company paid a total of \$17.3 million for these hedging agreements in the reported quarter. 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 September 30 2010 is a negative sum of \$24.8 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 September 30 2010, 44% of the balance of the Company's loans is at fixed interest for a two year horizon. In addition, the Company has as of September 30 2010 a balance of loans to the amount of \$101.5 million at fixed interest for a period of 11 years constituting 14% of all of the Company's loans.

The Company paid refunds for these hedging agreements to the amount of \$4.3 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

The Company executes hedges to protect its currency exposure due to changes in the exchange rate of the NIS versus the USD, in accordance with its policy as laid out in Section b.1.(2) above.

In August 2010 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 13 month period ending December 2011. These transactions are recognized as hedges for accounting purposes.

The fair value of these instruments as of September 30 2010 is \$8.3 million, presented in the Financial Statements as part of current and non-current assets under "Derivative Financial Instruments". In the reported quarter, the Company received refunds for these hedging agreements to the amount of \$2.1 million.

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

For information on changes in the NIS-USD exchange rate occurring subsequent to the balance sheet date, see Section e.(4) below.

b.1.(6) Sensitivity Analysis Reporting

The following is an analysis of the sensitivity of the fair value of the financial instruments sensitive to changes possible in the risk factors to which they are exposed. The analyses are relative to the fair value of the financial instruments as of September 30 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%
	4.032 NIS/\$	3.848 NIS/\$	3.665 NIS/\$	3.482 NIS/\$	3.299 NIS/\$
Cash and cash	(1,907)	(999)	20,974	1,104	2,330
Short-term deposits	(745)	(390)	8,200	432	911
Trade receivables	(117)	(61)	1,287	68	143
Other receivables	(670)	(351)	7,373	388	819
Current derivative financial instruments	(666)	(349)	7,325	386	814
Long-term bank deposits	(162)	(85)	1,784	94	198
Non-Current derivative financial instruments	(92)	(48)	1,014	53	113
Total financial Assets	(4,360)	(2,284)	47,957	2,524	5,329
Short-term borrowings and current maturities	117	61	(1,289)	(68)	(143)
Trade payables	2,235	1,170	(24,580)	(1,294)	(2,731)
Other payables - Current	275	144	(3,026)	(159)	(336)
Other payables - Non-Current	403	211	(4,437)	(234)	(493)
Total financial liabilities	3,030	1,587	(33,332)	(1,754)	(3,704)
balance sheet due to surplus financial liabilities over	(1,330)	(696)	14,625	770	1,625

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%
	0.808 Euro/\$	0.772 Euro/\$	0.735 Euro/\$	0.698 Euro/\$	0.661 Euro/\$
Cash and cash	(602)	(315)	6,619	348	735
Trade receivables	(1,312)	(687)	14,437	760	1,604
Other receivables	(112)	(59)	1,233	65	137
Total financial Assets	(2,026)	(1,061)	22,289	1,173	2,477
Short-term borrowings and	2	1	(25)	(1)	(3)
Trade payables	2,243	1,175	(24,676)	(1,299)	(2,742)
Other payables	371	195	(4,086)	(215)	(454)
Total financial liabilities	2,617	1,371	(28,787)	(1,515)	(3,199)
balance sheet due to surplus financial liabilities over	591	309	(6,498)	(342)	(722)

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%	Increase 5%		Decrease 5%	Decrease 10%
	2.543	2.428	2.312 *	2.196	2.081
	\$/gallon	\$/gallon	\$/gallon	\$/gallon	\$/gallon
Jet fuel Inventorie	680	340	6,803	(340)	(680)

* The price of jet fuel according to a moving weighted average for the period ending September 30 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%	Increase 10%	Increase 5%		Decrease 5%	Decrease 10%	Decrease 15%
	2.515 , 2.565	2.406 , 2.453	2.296 , 2.342	2.187 , 2.230 *	2.078 , 2.119	1.968 , 2.007	1.859 , 1.896
	\$/gallon	\$/gallon	\$/gallon	\$/gallon	\$/gallon	\$/gallon	\$/gallon
SWAP transactions - designed for hedging	42,688	28,459	14,229	12,099	(14,229)	(28,459)	(42,688)

* The price of jet fuel in the Mediterranean Basin (\$2.187/gallon) and Northwest Europe (\$2.230/gallon) as of September 30 2010, according to which the fair value of the Company's hedge transactions is calculated .

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	29	4	2	(922)	(2)	(4)	(28)
IRS transactions - not designed for hedging	2,057	259	119	(20,238)	(155)	(254)	(2,080)
Cylinder transactions - not designed for hedging	114	13	8	(3,605)	(10)	(14)	(116)
Total	2,200	276	129	(24,765)	(167)	(272)	(2,224)

* Fair value was calculated according to the market Libor rate as of the report date, at the following rates: 3-month Libor: 0.29%, 6-month Libor: 0.46%, and 12-month Libor 0.78%, all as applicable and according to the relevant transaction.

f) **Sensitivity of NIS/USD exchange rate hedge to changes in market exchange rates – in thousands of dollars:**

Type of instrument	Loss from changes		Fair value NIS/\$ *	Gain from changes	
	Increase 10% in exchange rate 4.032	Increase 5% in exchange rate 3.848		Decrease 5% in exchange rate 3.482	Decrease 10% in exchange rate 3.299
FORWARD transactions - designed for hedging	(21,184)	(10,589)	8,339	10,595	21,184

* 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 3.665 NIS per \$1 on September 30 2010.

b2. Linkage Basis Report

The following is the consolidated linkage basis report for September 30 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	120,631	20,974	6,619	11,259		159,483
Short-term deposits	30,054	8,200				38,254
Restricted deposits	1,500					1,500
Trade receivables	122,319	1,287	14,437	12,236		150,279
Other receivables	8,064	7,373	1,233	930		17,600
Derivative financial instruments	9,221	7,325				16,546
Prepaid expenses					28,245	28,245
Inventories					15,426	15,426
Non-current assets						
Bank deposits		1,784				1,784
Investment in affiliated companies					648	648
Investments in another company	4,034					4,034
Derivative financial instruments	4,609	1,014				5,623
Fixed assets, net					1,246,457	1,246,457
Intangible assets, net					7,923	7,923
Assets due to employee benefits	124	34,983				35,107
Prepaid expenses					2,505	2,505
	300,556	82,940	22,289	24,425	1,301,204	1,731,414
Current liabilities						
Short-term borrowings and current maturities	(152,060)	(1,289)	(25)	(1,158)		(154,532)
Trade payables	(100,102)	(24,580)	(24,676)	(12,877)		(162,235)
Other payables	(42,000)	(3,026)	(4,086)	(3,636)		(52,748)
Provisions	(5,407)	(56,127)				(61,534)
Derivative financial instruments	(6,258)					(6,258)
Employee benefit obligations	(2,429)	(94,271)	(425)	(304)		(97,429)
Unearned revenues					(235,179)	(235,179)
Non-current liabilities						
Loans from financial institutions	(581,297)					(581,297)
Employee benefit obligations	(7,831)	(48,833)	(723)	(5,287)		(62,674)
Other payables	(6,206)	(4,437)				(10,643)
Derivative financial instruments	(20,238)					(20,238)
Deferred taxes					(24,169)	(24,169)
Unearned revenues					(51,598)	(51,598)
Shareholders' equity					(210,880)	(210,880)
	(923,828)	(232,563)	(29,935)	(23,262)	(521,826)	(1,731,414)
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	(623,272)	(149,623)	(7,646)	1,163	779,378	-

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

The following is the consolidated linkage basis report for September 30 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	87,742	881	2,616	7,431		98,670
Short-term deposits	12,000	7,954				19,954
Restricted deposits	28,468					28,468
Trade receivables	103,098	1,251	13,553	11,004		128,906
Other receivables	18,695	6,321	1,164	789		26,969
Derivative financial instruments	1,728	6,249				7,977
Prepaid expenses					26,948	26,948
Inventories					13,549	13,549
Investment in associate held for sale	1,229				1,143	2,372
Non-current assets						
Bank deposits		1,940				1,940
Investments in affiliated companies					445	445
Investments in another company	1,570					1,570
Derivative financial instruments	1,481	1,186				2,667
Fixed assets, net					1,348,175	1,348,175
Intangible assets, net					8,992	8,992
Assets due to employee benefits	148	34,195				34,343
Prepaid expenses					2,596	2,596
	256,159	59,977	17,333	19,224	1,401,848	1,754,541
Current liabilities						
Short-term borrowings and current maturities	(108,631)		(1,471)	(7)		(110,109)
Trade payables	(84,826)	(22,263)	(22,866)	(13,382)		(143,337)
Other payables	(37,486)	(2,477)	(3,453)	(3,416)		(46,832)
Provisions	(4,436)	(50,439)				(54,875)
Derivative financial instruments	(79,519)					(79,519)
Employee benefit obligations	(2,456)	(90,025)	(501)	(292)		(93,274)
Unearned revenues					(211,892)	(211,892)
Non-current liabilities						
Loans from financial institutions	(730,528)					(730,528)
Employee benefit obligations	(7,604)	(51,766)	(960)	(5,302)		(65,632)
Derivative financial instruments	(27,310)					(27,310)
Other payables	(13,003)					(13,003)
Deferred taxes					(2,949)	(2,949)
Unearned revenues					(46,091)	(46,091)
Shareholders' equity					(129,190)	(129,190)
	(1,095,799)	(216,970)	(29,251)	(22,399)	(390,122)	(1,754,541)
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	(839,640)	(156,993)	(11,918)	(3,175)	1,011,726	-

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
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						
	(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:

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, the Security 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 to the Board of Directors for review.

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 independent auditor is asked to present his comments, if any, to the committee members – including accounting policy applied and special events that arose during the audit.

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 independent auditor.

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 Provisions with Regard to Financial Reporting by the Corporation:

d. 1 Events Subsequent to the Balance Sheet Date

Regarding events subsequent to the balance sheet date, see Note 13 to the September 30 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 pending 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. Additional 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.

The following are changes occurring to jet fuel prices, interest rates and NIS exchange rates from the end of the third quarter until immediately prior to the publication of the September 30 2010 Financial Statements.

b) As of the Balance Sheet date (September 30 2010) the price of jet fuel in the Med region was 218.7 cents per gallon, while as of immediately prior to the approval of the report for the third quarter of 2010 this price has reached 232.9 cents per gallon, a 7% increase.

The effective price the Company is expected to pay for jet fuel consumption (after hedging) in October and November 2010 is 7% lower than the average effective price paid in the reported quarter, as a result of the Company's hedging agreements. 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 next 24 months.

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. As of the publication of the Financial Statements, no demand exists for deposits.

c) Subsequent to the balance sheet date, a decrease occurred in three-month Libor interest rates from 0.29% on September 30 2010 to 0.28% on a date immediately prior to the approval of the Q3 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 fourth 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) The NIS exchange rate was revaluated over the course of October and the beginning of November relative to the USD, however, on a date near the publication of the Financial Statements, the exchange rate of the NIS increased past its rate as of September 30 2010, so that the impact of the changes deriving from the change in the NIS exchange rate expected for October and November 2010 on the Company's results is not material.

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) above), thus increasing or decreasing the

Company's salary and financing expenses. The impact of the above change as of immediately prior to the report date is an added income of \$0.5 million. 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 (December 31 2010).

Yehuda (Yudi) Levy
Deputy Chairman of the Board
of Directors

Elyezer Shkedi
CEO

November 16, 2010

Appendix to the Report of the Board of Directors on the State of the Corporation's Affairs for the Period Ending September 30, 2010

Minimal Disclosure Required for Value Estimates and in their Regard, and Rules Pertaining to their Addition to Reports as per Securities Authority Guidelines in Accordance with Section 8b of the Securities Regulations (Periodic and Immediate Reports), 1970.

Assessment of the Total Value of the 777-200 747-400 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 undergone impairment and IAS 36 demands that the corporation recognize the loss from impairment.

The following document presents the key points of the value estimate performed by El Al Israel Airlines Ltd. (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 8b of the Securities Regulations (Periodic and Immediate Reports), 1970, regarding minimal required disclosure for value assessments and in their regard and rules regarding their addition to reports.

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

September 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 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 commitments 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 September 30 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 \$464 million, compared to the depreciated retained cost in the books of those aircraft as of September 30 2010, which amounts to a total of \$524 million.

The selling price of the 747-400 fleet amounts to a total of \$158 million, compared to the depreciated retained cost in the books of those aircraft as of September 30 2010, which totals \$243 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 \$96 million in 2010, and the cash flow from the operation of the 747-400 aircraft fleet will amount to \$111 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 \$188 million for the 777-200 fleet and \$86 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>2023</u>	<u>סה"כ</u>
Total discounted cash flow	92	85	79	73	68	63	58	54	50	46	43	40	37		788
Total Residual Value (After 13 Years)														69	69

Total value of the above assets based on the discounted cash flow method: \$857 million.

* Referring to periods between October 1 and September 30 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 projections of value in use:

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	817	793	770	747	726	706	687	668
85	863	837	813	790	767	746	726	706
90	908	882	856	832	808	786	765	744
96	962	934	907	881	857	833	811	789
100	1,000	970	942	916	890	866	843	821
105	1,045	1,015	986	958	932	906	882	859

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

Difference of NPV Vs. Reduced Value	Reduced Value	NPV	Yearly Contribution	Fuel Price (Cent per Gallon)
In Millions of Dollars				
361	524	885	99	222
347	524	871	98	235
332	524	857	96	247
318	524	842	94	259
304	524	828	92	272

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

*	2010	2011	2012	2013	2014	2015	2016	Total
Total discounted cash flow	107	99	92	85	78	72		533
Total residual value (after 6 years)							54	54

Total value of the above assets based on the discounted cash flow method: \$587 million.

* Referring to periods between October 1 and September 30 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 projections of value in use:

Discount Rate Yearly Contribution	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%
In Millions of Dollars								
95	541	533	525	518	510	503	496	489
100	567	558	550	542	534	527	519	512
105	592	583	575	566	558	551	543	535
111	622	613	604	595	587	579	571	563
115	643	633	624	615	606	598	590	582
120	668	658	649	639	630	622	613	605

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

Difference of NPV Vs. Reduced Value	Reduced Value	NPV	Yearly Contribution	Fuel Price (Cent per Gallon)
In Millions of Dollars				
361	243	603	114	220
353	243	595	113	232
345	243	587	111	244
336	243	579	109	256
328	243	571	108	268

i. Summary

The following table presents the summarized value assessment as of September 30 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		
464	857	857

Should Impairment be listed in the Books?

The Aircrafts' Depreciated Retained Cost as of September 30 2010	The Recoverable Amount of the Same Aircraft to EI AI, as of September 30 2010	Should Impairment be Listed in the Books?
In Millions of Dollars		
524	857	No

The following table presents the summarized value assessment as of September 30 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		
158	587	587

Should Impairment be listed in the Books?

The Aircrafts' Depreciated Retained Cost as of September 30 2010	The Recoverable Amount of the Same Aircraft to El Al, as of September 30 2010	Should Impairment be Listed in the Books?
In Millions of Dollars		
243	587	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 be subsequently required to perform impairment.

EL AL Israel Airlines Ltd.

Interim Consolidated Financial Statements
As of September 30 2010

(Unaudited)

EL AL Israel Airlines Ltd.

Consolidated Interim Financial Statements (Unaudited)
As of September 30 2010

Table of Contents

	<u>Page</u>
<u>Auditors' report</u>	
Concise Consolidated Interim Financial Statements (Unaudited)	C - 2
Concise Consolidated Balance Sheets	C - 3 - C - 4
Concise Consolidated Statements of Operations	C - 5
Concise Consolidated Statement of Comprehensive Income	C - 6
Concise Consolidated Statement of Changes in Shareholders' Equity	C - 7 - C - 9
Concise Consolidated Cash Flow Statement	C - 10 - C - 11
Notes to the Concise Consolidated Financial Statements	C - 12 - C - 28



**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 September 30 2010 and its consolidated concise Statement of Operations and reports on Comprehensive Income, Changes in Equity and Cash Flows for the nine and three month periods 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 conclusions with regard to the financial information for these interim periods, based on our review.

We have not reviewed the concise financial information for the interim period of subsidiaries the assets of which included in consolidation account for 2.05% of total consolidated assets as of September 30, 2010, and their revenues included in the consolidation constitute 1.2% and 1.3%, respectively, of all consolidated revenues for the nine and three month periods ending that date. The condensed financial information for the interim period of those subsidiaries was reviewed by other CPAs, whose review report has been provided to us, and our conclusion - in as much as it relates to financial information with respect to these companies - is based on said review reports by the other CPAs.

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 that would lead 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, November 16, 2010.

<p>משרד אילת המרכז העירוני ת.ד. 583 אילת, 88104</p> <p>טלפון: 08-6375676 פקס: 08-6371628 info-eilat@deloitte.co.il</p>	<p>משרד באר שבע פארק תעשיות עומר, כניון 10, ת.ד. 1369 עומר, 84965</p> <p>טלפון: 08-6909500 פקס: 08-6909600 info-beersheva@deloitte.co.il</p>	<p>משרד חיפה מעלה השחרור 5 ת.ד. 5648 חיפה, 31055</p> <p>טלפון: 04-8607333 פקס: 04-8672528 info-haifa@deloitte.co.il</p>	<p>משרד ירושלים שרי ישראל 12 ירושלים, 94390</p> <p>טלפון: 02-5018888 פקס: 02-5374173 info-jer@deloitte.co.il</p>	<p>משרד רמת-גן הרקון 6 רמת-גן, 52521</p> <p>טלפון: 03-7551500 פקס: 03-5759955 info-ramatgan@deloitte.co.il</p>	<p>משרד ראשי - תל אביב מרכז עזריאלי 1 תל אביב, 67021 ת.ד. 16593 תל אביב, 61164</p> <p>טלפון: 03-6085555 פקס: 03-6094022 info@deloitte.co.il</p>
---	---	--	---	---	--

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

EL AL Israel Airlines Ltd.
Concise Consolidated Balance Sheet

	As of September 30		As of December 31
	2010	2009	2009
	<u>Thousands of Dollars</u>	<u>Thousands of Dollars</u>	<u>Thousands of Dollars</u>
	(Unaudited)		
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	159,483	98,670	106,687
Short-term deposits	38,254	19,954	7,933
Restricted deposits	1,500	28,468	7,003
Trade receivables	150,279	128,906	112,086
Other accounts receivable	17,600	26,969	16,155
Derivative financial instruments	16,546	7,977	11,206
Prepaid expenses	28,245	* 26,948	24,873
Inventory	15,426	13,549	21,947
Investment in associate held for sale	-	2,372	-
Total current assets	427,333	353,813	307,890
<u>Non-Current Assets</u>			
Long-term bank deposits	1,784	1,940	1,839
Investment in affiliated companies	648	445	648
Investment in other companies	4,034	1,570	1,357
Derivative financial instruments	5,623	2,667	2,255
Fixed assets, net	1,246,457	1,348,175	1,312,930
Intangible assets, net	7,923	8,992	7,504
Assets due to employee benefits	35,107	34,343	34,501
Prepaid expenses	2,505	* 2,596	2,578
Total non-current assets	1,304,081	1,400,728	1,363,612
Total assets	1,731,414	1,754,541	1,671,502

(*) Restated - see Note 5

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

EL AL Israel Airlines Ltd.
Concise Consolidated Balance Sheet

	As of September 30		As of December 31
	2010	2009	2009
	Thousands of Dollars		
	(Unaudited)		
<u>Liabilities and Shareholders' Equity</u>			
<u>Current Liabilities</u>			
Short-term borrowings and current maturities	154,532	110,109	106,016
Trade payables	162,235	* 143,337	128,970
Other payables	52,748	* 46,832	54,444
Provisions	61,534	* 54,875	57,217
Derivative financial instruments	6,258	79,519	55,643
Employee benefit obligations	97,429	93,274	81,379
Unearned revenues	235,179	211,892	204,444
Total current liabilities	769,915	739,838	688,113
<u>Non-Current Liabilities</u>			
Loans from financial institutions	581,297	730,528	704,194
Employee benefit obligations	62,674	65,632	65,835
Other payables	10,643	* 13,003	13,318
Derivative financial instruments	20,238	27,310	20,135
Deferred taxes	24,169	2,949	5,313
Unearned revenues	51,598	46,091	50,813
Total non-current liabilities	750,619	885,513	859,608
Total liabilities	1,520,534	1,625,351	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	7,054	6,147	6,414
Capital reserve in respect of cash flow hedging	14,865	(54,166)	(30,822)
Accumulated loss	(231,180)	(242,932)	(271,952)
Total shareholders' equity	210,880	129,190	123,781
Total liabilities and equity	1,731,414	1,754,541	1,671,502

(*) Restated - see Note 5

Yehuda (Yudi) Levy
Deputy Chairman of the Board of Directors

Elyezer Shkedi
CEO

Nissim Malki
CFO

Approval date of Financial Statements: Ben Grion Airport, November 16 2010

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

EL AL Israel Airlines Ltd.
Concise Consolidated Statement of Operations

	For the Nine Month Period Ending September 30		For the Three Month Period Ending September 30		For the year Ending December 31
	2010	2009	2010	2009	2009
	Thousands of Dollars				
	(Unaudited)		(Unaudited)		
Operating revenues	1,480,223	1,242,158	561,203	496,059	1,655,833
Operating expenses	(1,190,710)	(1,081,695)	(426,182)	(400,654)	(1,444,250)
Gross profit	289,513	160,463	135,021	95,405	211,583
Selling expenses	(149,557)	(138,377)	(54,596)	(49,343)	(182,962)
General and administrative expenses	(69,810)	(64,268)	(23,189)	(21,137)	(88,562)
Other operating expenses, net	(4,221)	(986)	(1,599)	(1,147)	(15,027)
	(223,588)	(203,631)	(79,384)	(71,627)	(286,551)
Operating profit (loss) before financing	65,925	(43,168)	55,637	23,778	(74,968)
Financing expenses	(27,839)	(24,868)	(12,186)	(14,249)	(30,297)
Financing income	6,886	1,885	3,613	1,167	3,999
Financing expenses, net	(20,953)	(22,983)	(8,573)	(13,082)	(26,298)
Company's equity in earnings of affiliates, net	-	81	-	45	442
Income (loss) before income taxes	44,972	(66,070)	47,064	10,741	(100,824)
Tax benefit (income taxes)	(4,200)	18,790	(4,602)	1,563	24,524
Profit (loss) for the period	40,772	(47,280)	42,462	12,304	(76,300)
Profit (loss) per NIS 1 par value share, in USD					
Basic profit (loss) per share	0.08	(0.09)	0.09	0.02	(0.15)
Diluted profit (loss) per share	0.08	(0.09)	0.09	0.02	(0.15)
Weighted average of share capital issued for calculation of profit (loss) per share:					
Basic	495,719	495,719	495,719	495,719	495,719
Diluted	495,958	495,719	495,954	495,719	495,719

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

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

	For the Nine Month Period Ending September 30		For the Three Month Period Ending September 30		For the year Ending December 31
	2010	2009	2010	2009	2009
	Thousands of Dollars				
	(Unaudited)		(Unaudited)		
Profit (loss) for the period	40,772	(47,280)	42,462	12,304	(76,300)
Other Comprehensive Income					
Earnings in respect of cash flow hedging, net of tax	45,687	57,439	29,171	8,511	80,783
Other comprehensive income for the period, net of tax	45,687	57,439	29,171	8,511	80,783
Total comprehensive income for the period	86,459	10,159	71,633	20,815	4,483

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

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

For the Nine Month Period Ending September 30 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
Income for the period	-	-	-	-	-	40,772	40,772
Other comprehensive income for the period	-	-	-	-	45,687	-	45,687
Total comprehensive income for the period	-	-	-	-	45,687	40,772	86,459
Share based payment	-	-	-	640	-	-	640
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	640	-	-	640
Total shareholders' equity as of September 30 2010	155,012	28,007	237,122	7,054	14,865	(231,180)	210,880

For the Nine Month Period Ending September 30 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
Income for the period	-	-	-	-	-	(47,280)	(47,280)
Other comprehensive income for the period	-	-	-	-	57,439	-	57,439
Total comprehensive income for the period	-	-	-	-	57,439	(47,280)	10,159
Share based payment	-	-	-	367	-	-	367
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	367	-	-	367
Total shareholders' equity as of September 30, 2009	155,012	28,007	237,122	6,147	(54,166)	(242,932)	129,190

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

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

For the Three Month Period Ending September 30 2010

	<u>Share Capital</u>	<u>Share Premium</u>	<u>Capital Reserve from Transactions with a Former Controlling Shareholder</u>	<u>Capital Reserve in Respect of Share- Based Payment</u>	<u>Capital Reserve in Respect of Cash Flow Hedging</u>	<u>Accumulated Loss</u>	<u>Total</u>
Thousands of Dollars							
(Unaudited)							
Balance as of July 1 2010	155,012	28,007	237,122	6,858	(14,306)	(273,642)	139,051
Income for the period	-	-	-	-	-	42,462	42,462
Other comprehensive income for the period	-	-	-	-	29,171	-	29,171
Total comprehensive income for the period	-	-	-	-	29,171	42,462	71,633
Share based payment	-	-	-	196	-	-	196
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	196	-	-	196
Total shareholders' equity as of September 30 2010	<u>155,012</u>	<u>28,007</u>	<u>237,122</u>	<u>7,054</u>	<u>14,865</u>	<u>(231,180)</u>	<u>210,880</u>

For the Three Month Period Ending September 30 2009

	<u>Share Capital</u>	<u>Share Premium</u>	<u>Capital Reserve from Transactions with a Former Controlling Shareholder</u>	<u>Capital Reserve in Respect of Share- Based Payment</u>	<u>Capital Reserve in Respect of Cash Flow Hedging</u>	<u>Accumulated Loss</u>	<u>Total</u>
Thousands of Dollars							
(Unaudited)							
Balance as of July 1 2009	155,012	28,007	237,122	5,999	(62,677)	(255,236)	108,227
Income for the period	-	-	-	-	-	12,304	12,304
Other comprehensive income for the period	-	-	-	-	8,511	-	8,511
Total comprehensive income for the period	-	-	-	-	8,511	12,304	20,815
Share based payment	-	-	-	148	-	-	148
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	148	-	-	148
Total shareholders' equity as of September 30, 2009	<u>155,012</u>	<u>28,007</u>	<u>237,122</u>	<u>6,147</u>	<u>(54,166)</u>	<u>(242,932)</u>	<u>129,190</u>

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

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

For the Year Ending December 31 2009

	<u>Share Capital</u>	<u>Share Premium</u>	<u>Capital Reserve from Transactions with a Former Controlling Shareholder</u>	<u>Capital Reserve in Respect of Share- Based Payment</u>	<u>Capital Reserve in Respect of Cash Flow Hedging</u>	<u>Accumulated Loss</u>	<u>Total</u>
Thousands of Dollars							
Balance as of January 1 2009	155,012	28,007	237,122	5,780	(111,605)	(195,652)	118,664
Yearly loss	-	-	-	-	-	(76,300)	(76,300)
Other comprehensive income for the year	-	-	-	-	80,783	-	80,783
Total comprehensive income for the year	-	-	-	-	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 December 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 concise consolidated financial statements.

EL AL Israel Airlines Ltd.
Concise Consolidated Statements of Cash Flows

	For a Nine Month Period Ending September 30		For a Three Month Period Ending September 30		For the year Ending December 31
	2010	2009	2010	2009	2009
	Thousands of Dollars				
	(Unaudited)		(Unaudited)		
<u>Cash Flows from Operating Activities</u>					
Income (loss) for the period	40,772	(47,280)	42,462	12,304	(76,300)
Appendix A - Adjustments required for presentation of cash flow from operating activities	142,529	53,406	4,113	(31,096)	98,699
Cash deriving from operating activities, net	183,301	6,126	46,575	(18,792)	22,399
<u>Cash flow for investment operations</u>					
Acquisition of fixed assets (including general engine overhauls and payment on account of aircraft)	(29,669)	(166,321)	(9,325)	(14,887)	(178,679)
Proceeds from realized fixed assets	2,488	22,624	87	107	22,803
Investment in intangible assets	(2,671)	(1,297)	(1,699)	(571)	(1,955)
Realization of restricted deposits	5,503	124,501	-	9,823	145,966
Increase in short-term deposits, net	(30,321)	(12,133)	(30,478)	(12,337)	(112)
Investment in deposits for service providers and long-term	(73)	(103)	-	(53)	(176)
Repayment of deposits for service providers and long-term	291	347	135	99	727
Decrease in investments and loans to investee companies, net	-	-	-	-	1,229
Yield from the sale of affiliate	-	-	-	-	571
Cash used for investment activities, net	(54,452)	(32,382)	(41,280)	(17,819)	(9,626)
<u>Cash Flows From (For) Financing Activities</u>					
Receipt of long-term loans from financial institutions	-	113,259	-	-	113,259
Repayment of long-term loans from financial institutions	(50,871)	(46,244)	(20,427)	(20,010)	(74,615)
Receipt of other long-term loans	2,452	-	-	-	-
Repayment of other long-term loans	(1,055)	(220)	(469)	(36)	(254)
Payment for loan raising costs	-	(7,159)	-	-	(7,159)
Increase (decrease) in short-term credit, net	(26,579)	14,690	(683)	156	12,083
Cash deriving from (used for) financing activities, net	(76,053)	74,326	(21,579)	(19,890)	43,314
Increase (decrease) in cash and cash equivalents	52,796	48,070	(16,284)	(56,501)	56,087
Balance of cash and cash equivalents at the beginning of the period	106,687	50,600	175,767	155,171	50,600
Balance of cash and cash equivalents at the end of the period	159,483	98,670	159,483	98,670	106,687

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

EL AL Israel Airlines Ltd.
Concise Consolidated Statements of Cash Flows

	<u>For a Nine Month Period Ending September 30</u>		<u>For a Three Month Period Ending September 30</u>		<u>For the year Ending December 31</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>
<u>Thousands of Dollars</u>					
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		
<u>Appendix A</u>					
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)	97,969	110,833	31,269	35,656	160,987
Adjustment of value of long-term deposits	(52)	-	(97)	(72)	7
Share of earnings of affiliated companies, less dividends received, net	-	(81)	-	(45)	(284)
Deferred taxes, net	3,848	(19,103)	4,442	(1,691)	(24,604)
Increase (decrease) in liabilities in respect of employee benefits and in provisions	16,275	* (9,033)	3,640	* 13,077	(18,754)
Net capital gains from realized fixed assets	(391)	(583)	(58)	(89)	(582)
Profit from shares received for no return	(2,788)	-	(2,788)	-	-
Benefit value of employee stock option program	640	367	196	148	634
Loss (gain) from adjustment of fair value of derivatives recognized in the statement of operations	2,705	(20,883)	81	(827)	(23,542)
Changes in asset and liability items:					
Decrease (increase) in trade receivables	(38,193)	(22,860)	30,071	10,402	(6,040)
Decrease (increase) in other accounts receivable	(1,445)	(7,276)	(862)	(197)	4,110
Decrease (increase) in prepaid expenses	(3,299)	(92)	5,838	7,553	2,001
Decrease (increase) in inventories	6,521	(2,077)	(2,322)	3,372	(10,475)
Increase (decrease) in trade payables	33,265	* 12,444	9,388	* (3,554)	(1,923)
Increase (decrease) in other payables	(4,046)	* 4,112	(13,419)	* (28,709)	12,252
Increase (decrease) in unearned revenues	31,520	7,638	(61,266)	(66,120)	4,912
	<u>142,529</u>	<u>53,406</u>	<u>4,113</u>	<u>(31,096)</u>	<u>98,699</u>

(*) Restated - see Note 5

Appendix B – Non-Cash Transactions

Yield not yet received from the realization of affiliated company	-	-	-	-	572
---	---	---	---	---	-----

Appendix C – Cash Payment (Receipt) of Interest, Taxes and Dividends, Classified Under Cash Flow from Operating Activities

Interest payments	19,087	22,479	10,760	12,038	28,283
Interest receipts	(1,777)	(959)	(1,458)	(196)	(1,072)
Tax payments – advances in respect of extraneous expenses	75	52	25	19	203
Dividend receipts	20	-	20	-	(159)

The accompanying notes are an integral part of the concise consolidated 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, and starting August 2010 on domestic flights as well. Further information on the Group's operating segments is presented in Note 11 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 attached separate financial information as per Regulation 38.d of the Securities Regulations (Periodic and Immediate Reports), 1970, to the Financial Statements for the period ending September 30, 2010.

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: assets, 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 10 below.

- e. In the Board of Directors meeting held for the ratification of the Financial Statements on November 16, 2010, it was decided to authorize Mr. Yehuda (Yudi) Levi, Deputy Chairman of the Board, to sign in lieu of Mr. Amikam Cohen, Chairman of the Board of Directors. The Chairman of the Board was out of the country 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 the official exchange rates published by the Bank of Israel, as of the balance sheet date.

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

- (2) Balances linked to the Consumer Price Index are presented using the most recent known CPI value as of the balance sheet date (the CPI for the month prior to the month of the balance sheet date).
- (3) Below is data on dollar exchange rates and the CPI in Israel:

	<u>As of</u> <u>September 30</u> <u>2010</u>	<u>As of</u> <u>September 30</u> <u>2009</u>	<u>As of</u> <u>December 31</u> <u>2009</u>
CPI – in points	107.2	104.7	105.2
USD/NIS exchange rate	3.665	3.758	3.775
USD/EUR exchange rate	0.735	0.682	0.694
USD/pound sterling exchange rate	0.632	0.621	0.618

Change in %:

	<u>For the Nine Month Period Ended</u> <u>September 30</u>		<u>For the Year Ended</u> <u>December 31</u>
	<u>2010</u>	<u>2009</u>	<u>2009</u>
CPI	1.9%	3.4%	3.9%
USD vs. NIS	(2.9)%	(1.2)%	(0.7)%
USD vs. EUR	5.9%	(4.9)%	(3.3)%
USD vs. pound sterling	2.3%	(9.3)%	(9.9)%

	<u>For the Three Month Period Ended</u> <u>September 30</u>	
	<u>2010</u>	<u>2009</u>
CPI	1.2%	1.3%
USD vs. NIS	(5.4)%	(4.1)%
USD vs. EUR	(9.8)%	(3.7)%
USD vs. pound sterling	(5.0)%	3.2%

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 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, was cancelled. The revision shall apply to yearly reporting periods starting January 1, 2010.

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated Financial Statements

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 and starting January 1, 2010 or subsequently.

▪ **IAS 27 (Revised) "Consolidated and Separate 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 as 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.

▪ **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 the first recognition according to amortized cost or according to fair value through 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 through 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 through the statement of operations.
- Capital instruments may be designated on the date of the first recognition to fair value when profits or losses are charged to other comprehensive income. 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 exercise.

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated Financial Statements

- 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 model.
- 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 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.

The Company decided upon early adoption of this standard starting from 2010, with the start date set at January 1, 2010. Likewise, the Company has decided not to adopt comparison data retroactively.

Regarding the implementation of the Standard in relation to the Maman Deal, see Note 6.a.

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:

▪ **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 application 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 Amendment states 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 in the form of refunds from the plans or a reduction in future deposits to the plan. This 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.

▪ **IFRS 7 (Revision) "Financial Instruments: Disclosure" – Disclosure Clarifications**

As part of this revision, a disclosure requirement has been added regarding the impact of securities and other credit reinforcements received on the sum best representing the maximum exposure to credit risk on the date of the report.

Likewise, several disclosure requirements were omitted as detailed below:

- When the book value of a financial asset best represents the maximum exposure to credit risk on the report date, no disclosure is required regarding the maximum exposure to credit risk ignoring held securities and other credit reinforcements received.

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated Financial Statements

- Disclosure regarding the book value of financial assets, the terms of which were set in advance, which otherwise would have been delayed or the value of which would have been harmed is no longer required.
- When an entity receives possession of a security held as a guarantee, or appropriates collateral received as a credit reinforcement, no further disclosure is required regarding the nature and book value of the assets received and the sale policy of these assets, in the event that these assets are no longer held as of the report date.

This Standard shall be applied retroactively to yearly reporting periods starting January 1, 2011 or subsequently.

▪ **IAS 1 (Revised) "Presentation of Financial Statements" – Clarifications Regarding the Report on Changes in Equity.**

The revision establishes that other comprehensive income items shall be presented in the Report on Changes in Equity or as part of the Notes, according to the company's accounting policy. Accordingly, companies can choose whether to present the details of the other comprehensive income items charged directly to equity over the course of the presented reporting periods in the Report on Changes in Equity or in the Notes

This Standard shall be applied retroactively to yearly reporting periods starting January 1, 2011 or subsequently.

▪ **IAS 34 (Revised) "Interim Financial Reporting" – Material Events and Transactions**

The revision emphasizes the principles detailed in IAS 34, that the purpose of the information presented regarding events and transactions material to understanding the changes in the entity's financial status and performance since the last yearly report date, is to update the information referring to them in the latest yearly financial statement. Furthermore, the manner of the implementation of this principle in the matter of financial instruments was clarified, including the addition of the following disclosure requirements:

- Changes in business or economic circumstances influencing the fair value of financial assets and liabilities, independent of their measurement at fair value or depreciated cost.
- Transfers of financial instruments measured at fair value between the levels detailed in the fair value grade in IFRS 7 "Financial Instruments: Disclosure", are significant events requiring disclosure as part of the interim reports.
- Changes in the classification of financial assets deriving as a result of a change in the reasons for holding them or changes therein.

IFRIC 13 (Revised) "Customer Loyalty Plans" – Fair Value of Bonus Credits

As part of the revision, it was made clear that assessing the fair value of bonus credits shall take into account the sums of discounts and incentives offered to clients who have not accumulated bonus credits, and projected seizure levels of bonus credits.

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 the Group accounting policy, as set forth in Note 2 above, the company's 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 the 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

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated Financial Statements

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 Financial Statements as of December 31, 2009.

Note 5 - Reclassification of Balance Sheet Balances

The following are balance sheet items, of which their balances as of September 30, 2009 were reclassified:

1. Prepaid expenses for frequent flyer points to the amount of \$2,596,000 were reclassified from Current Prepaid Expenses to Non-Current Prepaid Expenses.
2. Real estate lease incentives to the amount of \$3,995,000 were reclassified from Trade Payables to Non-Current Payables.
3. a) Current liabilities due to an agreement pertaining to a \$3,044,000 cargo claim were reclassified from Current Provisions to Current Payables.
b) Non – current liabilities due to an agreement pertaining to a \$9,008,000 cargo claim 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")

Pursuant to Note 41.a of the yearly Financial Statements as of December 31, 2009, on April 12, 2010 the Company announced that it had signed a consensus document ("the Consensus Document") 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 Consensus Document 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 Consensus Document and exposes them to

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated Financial Statements

means of enforcement resulting from the law in question. Following a request by the Israel Antitrust Authority as described above, no allocations of securities as per the framework agreement were made at the time.

On September 13 2010 the Company received a letter from the Restraint of Trade Authority, according to which the Authority confirmed that the wording of the clause (as detailed above) included in the draft addition to the framework agreement provided by the Company and Maman to the Israel Antitrust Authority, is acceptable, and that after the parties sign the addition to the framework agreement including the clause in question, the Israel Antitrust Authority will have no objections to the implementation of the framework agreement.

The clause of the draft addition to which the Israel Antitrust Authority refers in its letter sets various restrictions, as required by the Authority, on the Company's involvement in the affairs of a specific Maman subsidiary (Laufer Aviation GHI Ltd.) and on the transfer of certain information pertaining to the subsidiary in question to the Company.

On September 19 2010 the Company and Maman signed an addition to the framework agreement, the signing of which constituted a term for the removal of the Israel Antitrust Authority's objections to the implementation of the framework agreement.

On November 3 2010 Maman's special general meeting approved a material private offer, pursuant to which Maman's securities would be allocated to the Company in the following manner: up to 7,000,000 regular 1 NIS NV each shares constituting up to 15% of Maman's issued and paid-up capital, as well as options exercisable as regular shares at a rate close to 10% of Maman's issued and paid-up capital. Following this, the Company was issued 2,837,837 regular Maman shares, constituting 7.5% of Maman's issued and paid-up capital.

Furthermore, the general meeting approved the appointment of Mr. Amikam Cohen, Chairman of the Company's Board of Directors, as member of Maman's board of directors, starting from the completion of the second batch issue and the appointment of Mr. Yehuda (Yudi) Levi, Deputy Chairman of the Company's Board of Directors, as member of Maman's Board of Directors, starting from the completion of the third batch issue, subject to the fact that on the date in question, the Company will hold over 10% of Maman's issued share capital.

On November 1 2010 the Company informed Maman that it would be extending the framework agreement between the companies, which was signed in February 2010, for an additional one year period.

As a result of the completion of the transaction, in the third quarter of 2010 the Company listed receipts to the amount of \$3.6 million for discounts received pursuant to the Maman transaction, and an additional \$2.8 million for the allocation of 3.75% of Maman's shares to the Company free of charge. These sums reduced the "Airport Fees and Services item" under Operating expenses in the Company's Statement of Operations.

In the next stages of the transaction, discounts from terminal service rates will continue. In Q4 2010 an additional 3.75% will be allocated from Maman's stock capital to the Company, free of charge. The value of the shares in question is estimated at \$3.2 million, and is expected to be charged in the Q4 2010 Statement of Operations as a reduction in operating expenses. Changes in the fair value of the shares will be charged to the statement of operations report until a date on which the Company will be deemed to have a material influence in Maman. In addition, in Q4 2010, options shall be issued for the purchase of Maman shares at a rate constituting 10% of Maman's share capital. The value of the options is estimated at \$4.8 million, and will also be charged in the Q4 2010 Statement of Operations as a reduction in operating expenses. The options shall be treated as a derivative, with changes in fair value recognized in the statement of operations.

In each of the years 2011 and 2012, the Company is expected to receive an additional 3.75% of Maman's shares, subject to the realization of the terms of the agreement.

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated Financial Statements

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

Following Notes 17.c.1. and 41b to the December 31 2009 Financial Statements on June 27 2010 the High Court of Justice ruled to reject the petitions filed by Arkia and Israir against the ruling, and ruled to reject the petition filed by the Company on the matter of the terms set in the decision, and charged the petitioners for court expenses.

The Company began operating flights to Eilat, in accordance with the conditions set in the ruling, starting August 1 2010.

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 were 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 delivered on April 24 2010. In accordance with the terms set in the agreement, the lease was classified as an operational lease.

d. ERP Project

Following that stated in the 2009 Financial Statements regarding the cancellation of the agreement to carry out the ERP Project, in June 2010 the Company signed a settlement with IBM constituting a solution to the financial dispute between the parties resulting from the cancellation of the agreement which includes, among other things, payment by the Company for the purchase of rights to interim products produced prior to the project's cancellation, dismissal of the mutual claims and arrangement of compensation between the Company and IBM. The Company is conducting talks with RAMCO regarding the settlement agreement and the dismissal of mutual claims between the parties.

The Company listed \$1.3 million in expenses in the September 30 Consolidated Financial Statements as a result of the erasure of investment components that failed to reach realization and an additional sum of \$0.3 million 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. Eliezer Shkedi. 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.

f. Eruption of Volcano in Iceland

Following the eruption of the volcano in Iceland and the diffusion of volcanic dust through European skies, starting April 15 2010 most European airports were 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. 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 scheduled 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, it had no material impact on the Company's operating results.

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated Financial Statements

g. Balance of Repayment of Loan from Banking Institute

The repayment date of a loan from a banking organization to the amount of \$63,750,000 will fall in August 2011. This sum is presented in the September 30 2010 Financial Statements under the heading "Short-Term Borrowing and Current Maturities".

The Company is in advanced stages of talks with the financing banks to redistribute the uncleared balance of the loan over an extended period.

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 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 agreed with 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 within the framework of the agreements, this as a result of new aircraft purchase transactions in the coming years.

Cancellation of the agreement in question shall have no impact on the Company's 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 replenishment 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 aircrafts 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 and concrete price quotes received by the Company 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 formerly practiced regarding these fleets (and all fleets).

Following the above changes in assessment, the Company recognized additional depreciation expenses of \$1.8 and \$0.6 million for the nine and three month periods, respectively, ending September 30 2010. 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 Collateral

As at the date of the report, the Company meets the ratio of top loans to collateral required in accordance with the agreements with the lending banks.

e. Unrestricted Assets

The value of the Group's total fixed assets as of September 30 2010 is \$1,247 million.

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated Financial Statements

The Group's key assets are aircraft and spare engines, the depreciated cost of which as of September 30 2010 is \$1,110 million. The depreciated cost of the Group's main assets, as stated, not restricted by a third party amounts to a total of \$25 million.

In addition, as of the balance sheet date, the Group possesses parts and fixed assets to the amount of \$137 million, free of any encumbrance.

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 addition, the Company sought the approval of the holder of the Special State Share regarding the leased cargo aircraft in the Company's possession. The State contacted the Company with a request to provide answers to several questions required to achieve the State's consent and the Company has provided all the requested information. 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.

g. Aircraft Leases

1) In May 2010 the Company signed a contract with the International Lease Finance Corporation to lease a 767-300 aircraft (EAK) for a period of 65 months. The aircraft was manufactured in 1997 and in El Al's service will feature 237 seats. The plane was received by the Company on June 21 2010 and began service in July 10 2010. The lease was classified as an operational lease in the Financial Statements.

2) In July 2010 the Company decided to exercise its option to extend the lease of a MK. Aviation S.A 757-200 aircraft (EBM), starting December 2010, for an additional 12-month lease. The lease was classified as an operational lease in the Financial Statements.

3) In August 2010 the Company signed an extension and a revision to the lease for the 737-800 aircraft (EKP) manufactured in 2001, from the International Lease Finance Corporation ("ILFC"), with whom a memorandum of understanding regarding the aircraft in question was signed in May 2010. The aircraft shall be leased for an additional 45 months. The lease was classified as an operational lease in the Financial Statements.

h. Changes to Fuel Tanks of Company Aircraft

U.S. aviation authorities require that aircraft fuel tanks be changed. The cost of the changes to the Company is \$9.3 million. The change must be carried out on half of the aircraft fleet by the end of 2014, with the completion date for all aircraft set for the end of 2017. Over the course of 2010 the Company plans to purchase 3 kits at a cost of \$1.1 million to implement the change on 3 aircraft.

Note 8 - Legal Proceedings

a. As of September 30 2010, legal suits were filed against the Company to the amount of \$145 million, the majority of which being a request to recognize a class action assessed at \$132 million. For the legal suits in question, the Company listed a \$4.2 million provision in its Financial Statements, this based on the opinions of the Company's legal counsel.

Legal claims not 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.

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated 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 \$1 million is against the Company), featuring claims regarding cargo shipping 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 March 2010 a lawsuit was filed against the Company as part of arbitration proceedings in the U.S. to the amount of \$0.7 million on behalf of a hotel that had provided hospitality services to the Company's air crews, which include arguments regarding accounts that require settlement between the parties. The parties have decided to engage in arbitration with the intent of solving the dispute. The Company has listed a provision for this claim in the Financial Statements, based on the advice of its legal counsel.
- d. Pursuant to the Company's December 31 2009 periodic reports, regarding the February 1 2010 request by a shareholder from the Chairman of the Company's Board of Directors, according to which the Company is required to file a suit against members of the Company's Board serving on the Board on the date the Company's agreement with former CEO Mr. Chaim Romano was ratified (hereinafter - "the Directors), and following the Company's March 24 2010 response, according to which the Company's Board of Directors found to cause no justify the filing and managing of the suit and that the filing and management such a suit are not in the Company's best interests, the Company hereby notes that on September 16 2010, an additional request was received from the shareholder according to which the Company is asked to once more consider its position on this issue, in light of the worthy grounds he claims exists for a suit against the Directors. On October 26 2010 an additional discussion was held on the subject by the Board of Directors, and it was decided that no need existed to alter the Company's decision in this regard. On November 1 2010, the response of the Chairman of the Company's Board of Directors was sent to the shareholder, which stated that after the Board had reconsidered the request, it was decided not to change its March 24 2010 decision.
- e. In addition to the above, additional lawsuits were filed against the Company in the nine-month period ending September 30 2010, to the amount of \$1.3 million, of which \$0.9 million, in the opinion of Company Management, based on the advice of legal counsel, has 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.
- f. Over the course of the nine month period ending September 30 2010, legal proceedings have been concluded in fourteen suits, the total financial scope of which amounted to \$1.8 million. The Company was charged with payment of \$1.5 million for these suits.
- g. Regarding other material legal proceedings against the Company, see Note 27d 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.

Note 10 - Transactions and Commitments with Subsidiaries

- 1) As stated in Note 1d, the Company did not include separate financial information in its report for the period ending September 30 2010, in accordance with Regulation 9c. of the Regulations, due to the negligibility of the added information.

The Company fully owns several companies, the activities of which complement 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

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

material relative to the Company as the extent of assets, liabilities and revenues managed as part of the subsidiaries are negligible relative to the extent 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.

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

a. Activity between the parent company and its subsidiaries:

<u>Company</u>	<u>Type of Activity</u>	<u>For the Nine Month Period Ending</u>		<u>For the Three Month Period Ending</u>		<u>For the Year Ending</u>
		<u>September 30</u>		<u>September 30</u>		<u>December 31</u>
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>
Thousands of Dollars						
Sun D'Or	Leasing of aircraft and associated services.	63,626	53,658	30,398	27,398	68,051
	Commissions from parent company	729	603	199	183	648
TAMAM	Purchasing food for Company flights at BGN	16,087	14,862	6,150	6,086	19,608
Borenstein	Purchasing food for Company flights from New York	5,104	5,218	1,889	1,828	6,352
	Management fees to the parent company	77	105	21	35	188
	Dividend payment to parent company	20	-	20	-	-
Superstar	Sale of flight tickets	7,775	6,818	2,489	2,644	8,578
Katit	Purchasing food for employees and food services in the King David Lounge in Terminal 3	2,153	2,073	724	778	2,767

<u>Company</u>	<u>Type of Activity</u>	<u>Investment Account</u>		<u>Investment Account</u>	<u>Credit and Debit Account</u>		<u>Credit and Debit Account</u>
		<u>As of September 30</u>		<u>As of December 31</u>	<u>As of September 30</u>		<u>As of December 31</u>
		<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>
Thousands of Dollars							
Sun D'Or	Leasing of aircraft and associated services.	3	3	3	20,185	10,176	6,543
TAMAM	Purchasing food for Company flights at BGN	1,322	1,897	1,617	4,560	5,308	4,310
Borenstein	Purchasing food for Company flights from New York.	4,873	4,640	4,367	546	520	191
	Loan to parent company (1)	2,600	2,600	2,600			
Superstar	Sale of flight tickets.	(41)	(7)	(32)	795	97	189
	Loan from parent company (2)	(324)	(330)	(332)			
Katit	Purchasing food for employees and food services at the King David Lounge in Terminal 3	-	-	-	1,023	829	946

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

- (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:

<u>Companies</u>	<u>Type of Activity</u>	<u>For the Nine Month Period Ending</u>		<u>For the Three Month Period Ending</u>		<u>For the Year Ending</u>
		<u>September 30</u>	<u>September 30</u>	<u>September 30</u>	<u>September 30</u>	<u>December 31</u>
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>
Thousands of Dollars						
TAMAM-Katit	Food purchasing	26	45	4	13	58
Superstar-Sun D'Or	Flight Ticket Purchasing	3,084	1,763	1,239	810	2,095

<u>Companies</u>	<u>Credit and Debit Account</u>		<u>Credit and Debit Account</u>
	<u>As of September 30</u>		<u>As of December 31</u>
	<u>2010</u>	<u>2009</u>	<u>2009</u>
Thousands of Dollars			
TAMAM-Katit	8	23	20
Superstar-Sun D'Or	984	1,063	788

Note 11 - 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.

In the reported year, 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.

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

Operating segment results for the nine and three month periods ending September 30 2010, 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. Details of revenues and results by operating segments:

For the Nine Month Period Ending September 30 2010:					
Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total	
Thousands of Dollars					
(Unaudited)					
Revenues					
Revenues from outside customers	1,324,886	57,750	31,548	66,039	1,480,223
Inter-segment revenues	-	-	64,192	(64,192)	-
Total segment revenues	1,324,886	57,750	95,740	1,847	1,480,223
Segment results	189,174	(2,021)	24,869	-	212,022
Unassigned expenses					(146,097)
Operating profit					65,925
Financing expenses					(27,839)
Financing income					6,886
The Company's share of the profits of subsidiaries, net					-
Profit before income tax					44,972
Taxes on income					(4,200)
Income for the period					40,772

For the Nine Month Period Ending September 30 2009:					
Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total	
Thousands of Dollars					
(Unaudited)					
Revenues					
Revenues from outside customers	1,112,227	43,178	30,098	56,655	1,242,158
Inter-segment revenues	-	-	53,662	(53,662)	-
Total segment revenues	1,112,227	43,178	83,760	2,993	1,242,158
Segment results	71,223	(21,500)	22,855	-	72,578
Unassigned expenses					(115,746)
Operational loss					(43,168)
Financing expenses					(24,868)
Financing income					1,885
The Company's share of the profits of subsidiaries, net					81
Loss before taxes on income					(66,070)
Tax benefit					18,790
Loss for the period					(47,280)

EL AL Israel Airlines Ltd.**Notes to the Concise Consolidated Financial Statements****For the Three Month Period Ending September 30 2010**

	Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total
Thousands of Dollars					
(Unaudited)					
Revenues					
Revenues from outside customers	498,724	18,251	11,054	33,174	561,203
Inter-segment revenues	-	-	30,962	(30,962)	-
Total segment revenues	<u>498,724</u>	<u>18,251</u>	<u>42,016</u>	<u>2,212</u>	<u>561,203</u>
Segment results	<u>95,158</u>	<u>(1,153)</u>	<u>10,356</u>	<u>-</u>	<u>104,361</u>
Unassigned expenses					(48,724)
Operating profit					<u>55,637</u>
Financing expenses					(12,186)
Financing income					3,613
The Company's share of the profits of subsidiaries, net					-
Profit before income tax					<u>47,064</u>
Taxes on income					(4,602)
Income for the period					<u><u>42,462</u></u>

For the Three Month Period Ending September 30 2009

	Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total
Thousands of Dollars					
(Unaudited)					
Revenues					
Revenues from outside customers	443,172	12,042	11,514	29,331	496,059
Inter-segment revenues	-	-	27,823	(27,823)	-
Total segment revenues	<u>443,172</u>	<u>12,042</u>	<u>39,337</u>	<u>1,508</u>	<u>496,059</u>
Segment results	<u>64,854</u>	<u>(6,857)</u>	<u>9,466</u>	<u>-</u>	<u>67,463</u>
Unassigned expenses					(43,685)
Operating profit					<u>23,778</u>
Financing expenses					(14,249)
Financing income					1,167
The Company's share of the profits of subsidiaries, net					45
Profit before income tax					<u>10,741</u>
Tax benefit					1,563
Loss for the period					<u><u>12,304</u></u>

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

	For the Year Ending December 31 2009				
	Passenger Aircraft	Cargo Aircraft	Others	Adjust- ments	Total
	Thousands of Dollars (Audited)				
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	<u>1,489,496</u>	<u>58,317</u>	<u>105,925</u>	<u>2,095</u>	<u>1,655,833</u>
Segment results	<u>112,453</u>	<u>(27,457)</u>	<u>27,457</u>	<u>-</u>	<u>112,453</u>
Unassigned expenses					(187,421)
Operational loss					<u>(74,968)</u>
Financing expenses					(30,297)
Financing income					3,999
The Company's share of the profits of subsidiaries, net					442
Loss before taxes on income					<u>(100,824)</u>
Tax benefit					24,524
Yearly loss					<u>(76,300)</u>

Note 12 - Bonus for the Departing CEO

Pursuant to Note 38k of the 2009 Financial Statements, regarding the discontinuation of the service of Company CEO Mr. Chaim Romano, note that in accordance with the departing CEO's entitlement to result-dependent bonus payment for a six month period out of the advance notice period according to his employment agreement, the Company's Board of Directors decided that the bonus shall be calculated on the basis of the months of January through June 2010. In accordance with the Company's financial results for January-June 2010, the bonus in question amounted to \$647,000, which was paid in Q3 2010.

Note 13 - Events Subsequent to the Balance Sheet Date

- a. In October 2010 the Company signed an agreement to lease a 737-800 aircraft (EKT) from Wilmington Trust Sp Services (Dublin) Limited, which holds the plane in trust for CIT Aviation Finance Limited, with whom a memorandum of understanding was signed in July 2010 regarding the aircraft in question. The aircraft will be leased for 68 months, with an option to extend the lease by an additional 24 months. The aircraft, manufactured in 2006, shall be reconfigured to El Al configuration upon planned receipt in March 2011. The lease shall be classified as an operational lease in the Financial Statements.
- b. In October 2010 the Company signed an extension and revision to the agreement to lease a 737-300ER aircraft (EAP), manufactured in 1991, from Aerospace International CIT, for an additional 42 months with the option to shorten the additional leasing period to 18 months. The lease shall be classified as an operational lease in the Financial Statements.
- c. In October 2010 the Company signed an extension and a revision to the lease for the 737-800 aircraft (EKO) manufactured in 2003, from RAIN VI LLC through the Aviation Capital Group Corp ("ACG"), with whom a memorandum of understanding regarding the aircraft in question was signed in May 2010. The aircraft shall be leased for an additional 5-year period with an option to shorten the additional lease period to 3 years. The lease shall be classified as an operational lease in the Financial Statements.

EL AL Israel Airlines Ltd.

Notes to the Concise Consolidated Financial Statements

- d. Following that stated in the 2009 periodic report regarding the suit filed in June 2006 before the Tel Aviv District Labor court against the Company and against the State of Israel/Ministry of Finance by 94 plaintiffs who had been employed by the Company and who had retired early between 2001 and 2003, who were petitioning to amend the retirement agreements in such a manner so as to state that the retirees would be entitled to early pension pay including associated benefits up to the legal retirement age, instead of 65. Alternately, the plaintiffs petitioned to cancel the retirement agreements. On October 14 2010 a partial ruling was issued, stating that early retirement agreements must be reinterpreted, so that instead of 65 years of age they shall be considered valid until 67. The partial ruling also stated that within 60 days of the ruling, basic agreed-upon calculation principles shall be submitted to calculate the sums. On October 26 2010 the Company filed a request to appeal the partial ruling to the National Labor Court. The Company has listed a provision for this claim in the Financial Statements, based on the advice of its legal counsel.
- e. In October 2010 a suit was filed before the Rishon Lezion Magistrate's Court by the Israel Aviation Authority against the Company to the amount of 1.8 million NIS; in its suit, the IAA claimed that as part of a project for the construction of a new sewage treatment plant in BGN, the Company undertook to construct preliminary facilities and perform sewage treatment up to a specific date, so that the Company facilities may be connected to the new facility. The claim was that the Company had violated its obligations and as a result, the IAA was forced to continue operating old oxygenation ponds, causing it costs and damages. The Company is studying the suit and is preparing a statement of defense.
- f. As part of its equipping plan, the Company is studying the option of purchasing eight new 737-900ER aircrafts, convertible to 737-800 models, from Boeing. So as to maintain the rights to receive the aircrafts, in November 2010 the Company made an initial deposit with Boeing of a non-material sum.