

Translation of the Hebrew Language financial statements

EL AL ISRAEL AIRLINES LTD.

FINANCIAL STATEMENT AS OF MARCH 31, 2008

(Unaudited)

Update of Chapter A (Description of the Corporation's Business)¹
For the 2007 Periodic Report ("the Periodic Report")
Of El Al Israel Airlines Inc. (hereinafter: "the Company")

1. Description of the General Development of the Group's Business

Starting in the first quarter of 2008, the Company has begun preparing its Financial Statements in accordance with International Financial Reporting Standards (IFRS).

As a result of the shift to IFRS reporting, the Company has presented its Financial Statements for the reported period as well as comparison numbers for the same period last year and for the year ending 2007 in accordance with international standards.

As for the accounting implications and adjustments required as a result of the shift to IFRS reporting, see Note 9 of the Company's Financial Statements dated March 31 2008.

The following is data prepared in accordance with the IFRS, which appeared in Chapter A – A Description of the Corporation's Business for the 2007 Periodic Report, as required by the Securities Authority (FAQ 1).

Note that according to the transfer guidelines to IFRS reporting, 2005 and 2006 data need not be presented anew.

To Item 5 – Financial Data Regarding the Corporation's Field of Activity

2007:

	Passenger Planes (Thousands of Dollars)	Cargo Planes (Thousands of Dollars)	Other and Adjustments to Consolidated (Thousands of Dollars)	Total (Thousands of Dollars)
Income from passengers	1,547,505	-	-	1,547,505
Cargo and mail income	106,217	216,338	-	322,555
Other income	38,692	994	22,704	62,390
Total income	1,692,414	217,332	22,704	1,932,450
Costs	(1,567,319)	(255,344)	(15,114)	(1,837,777)
Operational profit (loss)	125,095	(38,012)	7,590	94,673
Fixed assets for the end of the year	1,196,726	42,467	46,559	1,285,752

¹ The update is in accordance with Regulation 39A of the Securities Regulations (Immediate and Periodic Reports) 5730-1970 and includes material changes and developments occurring in the corporation's business regarding any matter requiring description in the Periodic Report. The update makes reference to the numbers of the Sections in Chapter A (Description of the Entity's Business) in the Group's 2006 Periodic Report.

For Item 7.3 – Income Segmentation and Service Profitability in the Field of Passenger Aircraft

	2007	2006*	2005*
Amount of gross profit (in thousands of dollars)	416,626	240,063	354,211
Rate of gross profit (in percentages)	25%	17%	25%

* The data for 2005 and 2006 were presented anew due to changes in the segmentation of the Company's income array between the field of passenger activity and that of cargo activity.

For Item 8.3(b) – Income Segmentation and Services Profitability in the Field of Cargo Aircraft

	2007	2006*	2005*
Amount of gross profit (in thousands of dollars)	(13,346)	17,821	10,622
Rate of gross profit (in percentages)	(6%)	8%	5%

* The data for 2005 and 2006 were presented anew due to changes in the segmentation of the Company's income array between the field of passenger activity and that of cargo activity.

To Item 9.4.8 – Financial Arrangements

The following are details of the Group's liabilities due to long term employee benefits (consolidated data in thousands of dollars):

	December 31 2007 (in Thousands of Dollars)
Employee severance pay liabilities and pension funds	179,725
Less – compensation and pension funds	(200,518)
Liabilities resulting from grants deriving leftover sick days, retirement bonuses, jubilee bonuses and adjustment periods	37,336
Liabilities resulting from retirement plans, net	40,029
Less – current maturities	(1,821)
Total	54,751

To Item 9.6.5 – Working Capital Deficit

As of December 31 2007 the Group had a working capital deficit to the amount of \$150 million compared to \$204 million at the end of the preceding year. The Company's current ratio at the end of 2007 is 77% compared to 65% at the end of the preceding year. For details on the factors behind the increase in the working capital deficit see Item 2.1 of the Board of Directors' Report.

The Following are Additional Updates to Chapter A – Description of the Corporation's Business:

To Item 3.1 – Investments in Corporate Capital – General

On May 26 2008 the Company presented the Securities Authority with a final draft of a shelf prospectus, based on the Company's December 31 2007 Financial Statements. As of this report, the Securities Authority has yet to approve the publishing of said prospectus.

To Item 3.4 – Changes in the Holdings of Interested Parties

On March 18 Mr. Pinchas Ginsberg, a Company interested party, announced the purchase of 48,947 shares at 1.85 NIS per share. On March 20 2008 Mr. Ginsberg announced the sale of 38,040 shares at 2.04 NIS per share. After the completion of the above transactions, Mr. Ginsberg holds, in his own name and on behalf of other individuals in the Ginsberg Group, 38,128,969 shares, which consist of 7.69% of the Company's issued and redeemed shares.

To Item 6.1 – Movement in the International Aviation Sector

According to IATA data, an increase of 6.6% in international passenger traffic occurred during the first quarter of 2008 compared to the first quarter of 2007, with an average occupancy rate of 75.6%².

The scope of international air cargo shipping increased by 4.4% during the first quarter relative to the comparable quarter the previous year, meaning that the annual growth rate was smaller than IATA's earlier estimates (approximately 5%).

To Item 6.2 – Movement in the Israeli Aviation Sector

According to data provided by the Central Bureau of Statistics, between January and March 2008 457,000 tourist arrivals by air were listed in Israel, an increase of 25% compared to the same quarter last year, when the Israeli tourism industry was still feeling the influence of the Second Lebanon War. In addition, 627,000 departures by air of Israelis were listed this quarter, a 2% decrease compared to the same quarter last year. This decrease in the amount of Israelis traveling abroad derived from movement of the date of the Passover holiday, which this year fell on the beginning of the second quarter, compared to last year, where the holiday fell in March.

A 9% increase in total Ben Gurion Airport passenger traffic occurred this period, part of which was on routes on which the Company does not operate flights.

A 7.5% increase in cargo traffic to and from Israel occurred over the course of the first quarter of 2008 compared to the same quarter last year³.

² IATA data refers only to regular international traffic. Domestic traffic is not included. All data is preliminary and represent information provided by the airlines received prior to publication with the addition of IATA estimates regarding missing data.

³ According to Airport Authority Data

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

The quarter ending March 31 2008 saw a 62% increase in the market price of jet fuel compared to the same quarter last year. The Company's average jet fuel prices increased, after hedging activity, by some 38.6 compared to the same period last year. Fuel costs constituted 35.2% of the Company's turnover (fuel costs constituted 29% of the turnover in 2007). The data below refers to jet fuel prices in the Mediterranean basin, as quoted by Platts⁴. For further details, see Items 6.1 and 6.2 of the Board of Directors' Report on the State of the Corporation's Affairs.

The Company purchases fuel from four suppliers in Israel, chosen by open bid. In the quarter ending March 31 2008 the Company purchased some 35% of its fuel purchases for the quarter from a single supplier (the Paz Company).

On March 31 2008 the Company held jet fuel reserves, purchased from suppliers in Israel and abroad, to the amount of \$9.4 million.

To Item 6.4 – Fluctuations in Foreign Currency Rates

As of March 31 2008, there was a 14.5% decrease in the exchange rate of the U.S. dollar versus the shekel, compared to March 31 2007, and a 7.6% decrease compared to December 31 2007.

As of March 31 2008, there was a 15.7% decrease in the exchange rate of the U.S. dollar compared to the euro, compared to March 31 2007, and a 7.0% decrease compared to December 31 2007.

To Item 6.5 – Interest Rate Fluctuations

A decrease of 34.6% in the average rate of the LIBOR interest occurred in the quarter ending March 31 2008 for 3 months in relation to the fourth quarter of 2007, while a decrease of 38.6% occurred in relation to the same period last year. For further details, see Item 6.2 of the Board of Directors' Report on the State of the Corporations' Affairs.

2. Passenger Aircraft Activity

To Sections 7.1.4 – Developments in the Markets of its Areas of Activity, of Changes in the Characteristics of its Customers, Item 7.1.10 – Competitive Structure in Areas of Activity and Changes Therein, Item 7.2 – Services in Areas of Activity and Item 7.4 – New Services.

- The Belgian airline Jetair, owned by the German TUI Corporation, began operating regular flights between Tel Aviv and Liège starting March 2008 and operates 2 regular weekly flights.
- The French airline Corsair, also owned by TUI, began operating regular flights between Tel Aviv and Paris at the beginning of April 2008, and starting April 2008 as well, the French airline New Axis began operating bi-weekly flights on the Tel Aviv-Paris route (in addition to their flights to Marseilles). These flights shall begin operating on a

⁴ As far as the Company knows, Platts is a member of the McGraw-Hill Group that has been providing information concerning the energy industry for over 75 years. The company provides information and up-to-date analysis, among other things, on international prices and events in the fuel, petrochemical, natural gas and electric and nuclear power markets.

regular basis, this following an agreement between Israel and France to appoint a third designated carrier for the Tel Aviv-Paris route.

- Arkia Airlines announced that it would begin operating regular flights between Israel and Paris starting May 2008.
- The Spanish airline Air Europa announced that starting June 2008 it would begin operating three regular Tel Aviv-Madrid flights, this in accordance with the aviation agreement between Israel and Spain allowing multiple designated carriers.

In the beginning of April 2008 new agreements were reached between Israel and Italy allowing the appointment of two designated carriers for each country between each pair of cities, and the weekly frequencies for each country was increased from 20 to 26 per week for the summer 2008 season. In addition, the cap on the amount of weekly flights held by Israeli carriers on the Milan route was lifted.

In May 2008 Israel and South Korea signed a new aviation agreement, allowing each country to appoint two airlines for the Tel Aviv-Seoul line, carrying passengers or cargo. The agreement was for 7 weekly flights to each country, compared to 4 weekly cargo flights to date. South Korea also announced that it plans to appoint Asiana Airlines as the designated carrier between Tel Aviv and Seoul, this in addition to Korean Air which currently operates two weekly cargo flights on that line.

In addition to that stated in Item 7.1.10(b)(3) of the Periodic Report concerning the government's decision on raising the State's participation rate in the Company's security expenses, in conjunction with the appointment of additional designated carriers to various destinations to which El Al had been the only designated Israeli airline, on May 22 2008 the Ministry of Transportation announced that it would be allocating new regular flight routes to Arkia, Israir and Sun Dor Airlines, as part of the liberalization policy introduced by the Ministry of Transportation into the aviation sector and following the above government decision. According to the announcement, Israir was appointed as the designated carrier for the London and Rome routes, Arkia to the Barcelona and Madrid routes and Sun Dor to the Antalya, Bratislava and Zagreb routes.

In light of the fact that the Israeli government has yet to begin implementing the government decision concerning the enlargement of the government's participation in security costs for Israeli airlines and in light of the above, the Company has approached the Ministry of Transportation and the Ministry of Finance with a request to implement the government's decision in its entirety. After receiving no answer in reply, on May 27 2008 the Company filed a petition in the High Court of Justice against the Government of Israel, the Minister of Finance, the Deputy Prime Minister and Minister of Transportation and Traffic Safety and other respondents (hereinafter: "the Respondents"). In its petition the Company asked, among other things, to issue a temporary order addressed at the Respondents instructing them to provide grounds as to why the Government Decision no. 3024 dated January 27 2008 in the matter of (a) the increase in Government participation in Airline security expenses and (b) the change in the state's regular civil aviation policy and appointment of additional designated carriers ("the Government Decision")

In addition, as part of the petition the Company requested an interim order instructing the Respondents to abstain from implementing or continuing to implement the Government Decision in a partial manner, meaning to abstain from merely implementing those portions of the Decision dealing in the appointment of additional designated carriers, this until a ruling is provided on the petition.

The Company claims in its petition that the Government Decision is primarily composed of two related parts (a) setting the level of government participation in Israeli airlines' security expenses at 80% (compared to 50% today); (b) altering the State of Israel's aviation policy on fixed routes, as determined in the government decision dated May 2003, by canceling various prerequisites, concerning which the Minister of Transportation must decide whether to cancel the Company's status as a designated carrier for a certain fixed route or to add an additional designated carrier besides the Company.

Following that stated in Item 7.1.10(c) of the Periodic Report concerning the signing of an "open skies" agreement between Europe and the U.S., the agreement came into effect on March 31 2008.

Following that stated in Item 76.1.10(d) of the Periodic Report, in the first quarter of 2008 a total increase of 11% was listed in charter company activity. The foreign charter companies increased their activity by 19% while Israeli charter companies increased their activities by just 3%. The bulk of the increase in foreign charter company activity was in routes to and from Turkey (+24%). In all, charter flights took up 14.6% of all traffic at Ben Gurion Airport, similar to rates in Q1 2007.

Passenger traffic divided in the following manner: the Company – 38.8%; other regular companies – 46.6%; charter companies – 14.6%.

The Group intends on renewing its flights to resorts in Turkey throughout the 2008 summer months, via Sun Dor.

Following to that stated in Items 7.2 ad 7.4 of the Periodic Report, in the matter of signing a joint code agreement with American Airlines, on March 28 2008 the U.S. Department of Transport approved the agreement in question. As of this report, the parties have yet to begin implementing the agreement.

Following that stated in Item 7.2 of the Periodic Report, in the matter of the upgrading and refreshing process for the long distance aircraft fleet, seat installation in the luxury cabins of the entire 777 fleet has been completed, at a cost of \$10 million.

To Item 7.1.5 – Technological Changes that may Significantly Influence Activity and to Item 7.6.2 – Computerized Reservation System

Following that stated in Items 7.1.5 and 7.6.2 of the Periodic Report, concerning the signing of an agreement with the Amadeus company, in April 2008 the Company began using the Amadeus reservation system, as part of its realization of the "El Al 2010" strategic plan.

To Item 7.4 – New Services

Following that stated in Item 7.4 of the Periodic Report concerning collaboration with the Home Check In company, the service was expanded to tourists leaving Israel, and expanded service was offered, including private door-to-door transportation to the airport, private security and passport checks and arrival directly to the plane or to the lounge, at the passenger's request.

Following that stated in Item 7.4 of the Periodic Report, concerning the launch of the Express Check In service, the service has been expanded to Heathrow Airport, London.

To Item 7.6.2 – Computerized Reservation System

Following that stated in Section 7.6.2 of the Periodic Report, in April 2008 the Company changed to the Amadeus reservation system in April 2008.

Additionally, in May 2008 the Company signed a Full Content agreement with Travelport International LLC (formerly Worldspan and Galileo), expanding distribution possibilities and access to information existing in the Company's Israeli reservation system (including existing inventory and rates), for distribution to its agents.

To Item 7.10 – Production Capability

In the first quarter of 2008 the Company expanded its seat selection by 7.5% and the Company's number of passengers times distance traveled increased by 5.3%. Therefore, a 2% decrease was listed in the weighted occupancy rate, which stood at 80.7% compared to 82.4% for the same quarter last year.

To Item 7.11 – Aircraft Fleet in the Field of Passenger Aircraft Activity

Following that stated in Item 7.11(a)(2) of the Periodic Report, note that on April 10 2008 an agreement was signed with a Spanish airline for the purchase of 3 new Boeing 737-800 aircraft ("the Agreement"). According to the Agreement, the aircraft are expected to enter service with the Company throughout 2009, and in the Company's service, each plane shall contain 260 seats, As reported by the Company, the estimated total investment in the matter of the purchase of the three planes, including the investments required for their acceptance, subject to decisions regarding the scope of additions and adjustments required to adopt the aircraft to the Company's needs, is expected to reach some \$145 million, where most of the compensation will be paid upon the aircrafts' delivery to the Company. The aircraft shall be self financed at a rate of 15%, with the remainder financed via loans.

Following that stated in Section 7.11 (a)(5) of the Periodic Report, and as reported by the Company, on April 30 2008 the Company's Board of Directors approved the purchase of four new 777-200ER aircraft with the option to purchase an additional two new aircraft, as detailed in the Periodic Report.

3. Cargo Aircraft Activity

To Item 8.1.3(a) – Scope of International Cargo Shipping

According to IATA reports, the scope of world airborne cargo shipping increased by 4.4% in the first quarter of 2008 relative to the comparable period in 2007, meaning a growth rate slightly below the IATA yearly estimate (5%).

This slowdown derives from high fuel prices. At the same time it cannot yet be estimated whether said data changes expectations regarding the total annual 2008 growth rate.

To Item 8.1.3(b) – Scope of Airborne Cargo Shipping to and from Israel

Airport Authority data indicates that cargo traffic through Ben Gurion Airport increased by 7.5% during the first quarter of 2008, compared to the first quarter last year, this being higher than IATA estimates of 4.8% annual growth rate.

To Item 8.2 – Services in the Activity Area

Starting May 2008 the Company has stopped its cargo flights to East Asia via cargo aircraft in its possession, this as a result of high operating costs for 747-200 aircraft. The Company provides airborne shipping to East Asia, and from there to a broad variety of destinations, via collaborations with foreign airlines as well as by transporting cargo aboard passenger flights.

To Item 8.10 – Aircraft Fleet, and to Item 9.11.9 – Special State Stock

Following that stated in the Periodic Report, the Company's Board of Directors has approved the decommissioning of a 747-200 cargo plane (which is expected to take place, as decided by Company management, by February 2009) thus reducing the number of the Company's cargo aircraft to three, this subject to the approval of the special state stock holder.

4. Details Concerning Two Fields of Activity

To Item 9.4.2 – Employed Workers

Following that stated in Item 9.4.2 of the Periodic report, the following is an updated table showing the Company's work roll as of March 31 2008:

	March 31 2008	December 31 2007
Regular employees	3,694	3,521
Temporary employees	2,416	2,408 (yearly average)
Total employees	6,110	5,929

To Item 9.8.3 – Credit Frameworks

In the quarter ending March 31 2008 the Company held a \$91.2 million credit framework from bank corporations, a sum identical to the approved framework as of December 31 2007.

In addition, as of December 31 2007 the Company had at its disposal a long term credit framework from the Bank of Israel to the amount of \$16 million for the purpose of providing guarantees for existing and future retirement plans. Following the Company's decision to place at the disposal of the paying entity a deposit to secure a portion of existing and future retirement plans, an agreement was reached between the Company and the Bank to cancel said framework.

To Item 9.8.4 – Exclusive Use Loans

As of March 31 2008, the balance of loans from bank corporations amounted to \$768 million.

To Item 9.4.16 – Executives and Senior Management

As reported by the Company on April 8 2008, K'nafaim announced that it had received written notice for Mr. David (Dedi) Borovich, one of K'nafaim's controlling parties, stating that he had received from Mr. Israel (Izzy) Borovich, the Chairman of the Boards, an option to purchase the entirety of Israel Borovich's shares of K'nafaim, which consist of 16.8% of K'nafaim's issued stock capital, at a company value of \$145 million ("the Option"). The Option shall be in effect until May 28 2008. In the event that the option is exercised, the sales transaction shall be signed and completed no later than July 30 2008. The message also stated that Mr. Israel Borovich made it clear in the option letter that after the transaction is completed and compensation for the shares is paid, he will resign from his positions at K'nafaim and at the Company. Until the transaction in question is completed, Mr. Israel Borovich's status, his position and his remuneration at said companies shall remain unchanged.

As reported by the Company on May 27 2008, K'nafaim announced that it had received additional notice from Mr. David (Dedi) Borovich, following the aforementioned letter, that he had informed Mr. Israel Borovich on May 27 2008 in writing and with his full agreement of his exercise of the option in question. The parties also agreed that the purchase agreement shall be signed and completed no later than August 31 2008 (a completion date extending the original completion date by a month).

On May 14 2008 the Company announced that it would be summoning a general assembly to approve the agreement between the Company and K'nafaim for the purpose of providing management services. This after the Company's Audit Committee⁵ and Board of Directors approved the extension of the Company's agreement to receive management services from K'nafaim on April 13 2008., this following a management agreement approved by the Company's general assembly on May 10 2005 (hereinafter: "the Management Agreement" and "the Transaction").

According to the Transaction, the Management Agreement, in effect since January 9 2005 for a three year period, shall be extended for an additional 6 month period, meaning from January 9 2008 to July 9 2008. As part of the Management Agreement, the terms of which have remained unchanged, K'nafaim has provided the Company with active Chairman of the Board services and a personal assistant in return for a sum of \$60,000 U.S. per month, as detailed in the management agreement.

The Company's Audit Committee and Board of Directors approved the agreement in accordance with the provisions of Regulation 1(1) of the Companies Regulations (Relief in Transactions with Interested Parties) 5760-2000 (hereinafter: "the Relief Regulations"), and stated that the agreement is an extension of an existing transaction, approved by the shareholders assembly on May 10 2005, and that no real changes had occurred regarding the terms of the agreement and the remainder of the relevant circumstances, compared to the existing agreement.

Whilst doing so, on April 14 2008 the Company published an immediate report on an agreement with a controlling party not requiring the approval of the general assembly (hereinafter: "the Transaction Report").

In accordance with Regulation 1c of the Relief Regulations, the relief as per Regulations 1 through 1b shall not apply to a publicly owned company, if one or more shareholder holding at least 1% of the Company's issued capital or voting rights shall object to the relief in question, so long as the objection was submitted in writing to the Company no later than fourteen days from the submittal of the Transaction Report. In the event that such objection has been made, the Agreement shall require approval in accordance with that denoted in Section 273 or 275 of the Companies Law, as appropriate.

On April 22 2008 the Company received notice from Mr. Pinchas Ginsberg, in his own name, on behalf of the remainder of the Pinchas Ginsberg Group individuals and on behalf of I. Hillel & Co., together holding 7.69% of the Company's shares, that they would object to the Transaction.

Therefore, and in accordance with Regulation 1c of the Relief Regulations, on April 30 2008 the Company decided to summon a special Company general assembly to approve the transaction. Said assembly was summoned for June 19 2008.

To Item 9.11.10 – Standards

As regards that stated in Item 9.11.10 of the Periodic Report, it is hereby made clear that the approval of the European Aviation Safety Agency (EASA) is regarding the Company's line maintenance array.

To Item 9.14 - Legal Proceedings

A suit was filed against the Company at the Tel Aviv District Court in May 2008 as well a request to recognize it as a class action according to the Class Action Law. The claimant claims that as a result of a delayed flight caused by a general strike, which prevented aircraft takeoffs

⁵ Seeing as Mr. Amiaz Sagis, who was present at the meetings of the Audit Committee in question, may be considered as holding personal interest in the said decision (as he is a Director at K'nafaim), and, so as to err on the side of caution, on May 13 2008 the Audit Committee approved the decision dated April 13 2008 anew, without Mr. Sagis's participation.

and landings, he was caused damages resulting from payment for lodgings (estimated at 300 NIS) as well as distress, discomfort and loss of time, to the amount of 3,500 NIS. The claimant estimates the size of the group of plaintiffs at some 3,000 passengers. The Company is studying the case and is preparing its response.

As regards Item 9.14.5 of the Periodic Report – as reported by the Company on May 26 2008, following earlier reports on the subject of the investigation into it and into other Airlines by the Antitrust Division of the U.S. Department of Justice in the matter of air cargo services between 2000 and 2006, on May 25 2008 the Company's Board of Directors reached a decision to list a \$20 million U.S. provision in its Financial Statements. This decision was reached based on examination of the probability of reaching a settlement with the U.S. Justice Department and was taken as a safety measure, with no admission of any sort of liability.

El Al Israel Airlines Ltd.

Report of the Board of Directors on the State of the Corporation's Affairs

For the Period Ending March 31 2008

We hereby present the Report of the Board of Directors on the State of the Corporation's affairs for the period ending March 31 2008.

El Al Israeli Airlines Ltd. (hereinafter: "the Company") concluded the three months ending March 31 2008 with a \$48.6 million loss compared to a \$7.2 million loss for the same period the preceding year.

The Company's turnover for the first quarter of the year increased by 21% compared to the same quarter last year and amounted to \$471.5 million.

Gross profit for the first quarter amounted to \$56.7 million, 12.0% of the Company's turnover, while for the same quarter the previous year it amounted to \$60.4 million, 15.5% of its turnover.

Net income deriving from current activity in the first quarter amounted to a total of \$41.2 million and cash balances and short term investments amounted to a total of \$275.9 million as of March 31 2008.

Total equity capital amounted to \$275.7 million as of March 31 2008, compared to \$318.8 million on December 31 2007.

General

I. IFRS Data Update

In the first quarter of 2008, the Company began preparing its Financial Statements in accordance with International Financial Reporting Standards (IFRS). The transfer date to international standards, as defined in Accounting Standard #29 of the Israeli Accounting Standards Board, was January 1 2007. As a result of the shift to IFRS reporting, the Company has presented its Financial Statements for the reported period as well as comparison numbers for the comparable quarter the previous year and for the year ending December 31 2007 in accordance with international standards. The data presented in the Report of the Board of Directors and the comparison numbers are in accordance with international standards. For further details see Note 1b of the Interim Financial Statements.

II. Influence of the Shift to IFRS

In accordance with Item I above, the Financial Statements for the three month period ending March 31 2008 are the first statements on which the Company has implemented international accounting rules (IFRS).

The following are condensed consolidated balance sheets, capital adjustments and consolidated Profit and Loss Reports, and the influences of the adjustments and classifications in accordance with IFRS rules, as of January 1 2007, and as of December 31 2007 and for the year ending December 31 2007.

The main influence of the shift to international standards is expressed in the December 31 2007 balance sheet, in the Company's Equity Capital item, which increased by \$33.6 million, largely from decreasing liability deriving from employee benefits and for presenting the fair value of hedging agreements defined as designated for defense.

As for the entirety of the accounting implications and adjustments required as a result from the shift from reporting in accordance with accepted Israeli accounting rules to international reporting rules, see Notes 1b and 9 of the Company's Interim Financial Statements dated March 31 2008.

<u>Consolidated Balance Sheet as of January 1 2007</u>			
<u>(in Millions of Dollars)</u>			
	Israeli Standardization	Adjustments & Classifications	IFRS
Current assets	378.6	-27.7	350.8
Non current assets	1,185.9	9.2	1,195.1
	1,564.5	-18.6	1,545.9
Current liabilities	582.8	27.9	610.7
Long-term liabilities	767.6	-43.4	724.2
Shareholders' equity	214.1	-3.0	211.1
	1,564.5	-18.6	1,545.9

<u>Capital Adjustment January 1 2007</u>			
<u>(in Millions of Dollar)</u>			
	Israeli Standardization	Adjustments & Classifications	IFRS
Share capital	131.5	-	131.5
Premium on shares	0.9	-	0.9
Capital reserve from transactions with a former controlling party	218.5	-	218.5
Capital reserve from employees' option program	2.6	-	2.6
Capital reserve from cash flows hedging	-	4.1	4.1

Accumulated deficit	-139.4	-7.1	-146.6
Total	214.1	-3.0	211.0

Consolidated Balance Sheet as of December 31 2007			
(in Millions of Dollars)			
	Israeli Standardization	Adjustments & Classifications	IFRS
Current assets	498.4	1.4	499.8
Non current assets	1,296.3	7.6	1,303.9
	1,794.8	8.9	1,803.7
Current liabilities	652.0	-2.1	649.9
Long-term liabilities	857.4	-22.5	835.0
Shareholders' equity	285.3	33.6	318.8
	1,794.8	8.9	1,803.7

Capital Adjustment December 31 2007			
(in Millions of Dollar)			
	Israeli Standardization	Adjustments & Classifications	IFRS
Share capital	155.0	-	155.0
Premium on shares	9.2	18.8	28.0
Capital reserve from transactions with a former controlling party	237.1	-	237.1
Capital reserve from employees' option program	4.5	-	4.5
Capital reserve from cash flows hedging	-	8.3	8.3
Accumulated deficit	-120.6	6.5	-114.1
Total	285.3	33.5	318.8

Consolidated Statements of Operations for 2007			
(in Millions of Dollars)			
	Israeli Standardization	Adjustments & Classifications	IFRS
Operating revenues	1,932.5	-	1,932.5
Operating expenses	<u>-1,539.7</u>	<u>22.0</u>	<u>-1,517.7</u>
Gross profit	392.8	22.0	414.8
Selling expenses	-230.6	-0.2	-230.9
General and administrative expenses	-90.8	-0.8	-91.6
Other operating income	=	<u>2.4</u>	<u>2.4</u>

Operating income before financing	71.4	23.3	94.7
Financing expenses	-33.4	-22.7	-56.1
Financing income	-0.8	20.3	19.5
Other operating income, net	2.4	-2.4	0.0
Income before income taxes	39.6	18.5	58.1
Income taxes	-8.8	-4.8	-13.6
Company's equity in results of affiliates, net	0.3	-	0.3
Net income for the period	31.2	13.6	44.8

* After restatement

III. The Company and its Business Environment

The Company acts as the State of Israel's designated air carrier for most international routes operating to and from Israel.

The primary activity of the Company and its subsidiaries is the transport of passengers and cargo, including baggage and mail, by way of regular flights, as well as passenger transport via charter flights, between Israel and abroad. The Company also deals in the leasing of aircraft, in providing security services and regular and complete maintenance services at Ben Gurion Airport for aircraft belonging to other airlines, in the sale of duty free items, and via held companies – in ancillary activities, primarily the manufacture and supply of food to its planes and the management of a number of overseas travel agencies.

The business environment in which the Company operates is the civil, international and tourist aviation market to and from Israel, which is characterized by seasonality and a high level of competition, which grows fiercer at times of surplus capacity.

The Company has two operating segments:

- (1) **Air transport in passenger planes** – in this segment the Group transports passengers, as well as cargo (including mail and baggage) in the belly of passenger planes, as well as provides ancillary services, such as the sale of duty free items and charter flights.
- (2) **Air transport in cargo planes** – in this segment the Group transports cargo in cargo planes and provides ancillary services.

IV. Company Shareholder Holdings

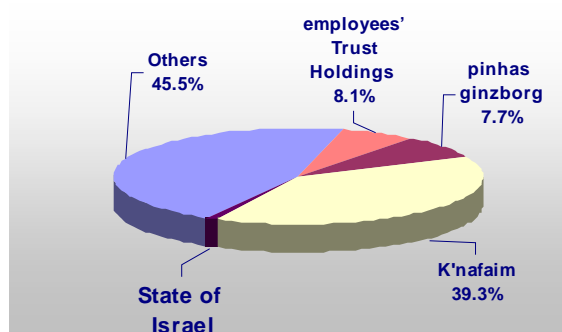
As of March 31 2008 holdings in the Company are as follows:

K'nafaim Holdings Ltd. (K'nafaim) – 39.3%; Pinchas Ginsberg – 7.7%; a Company employee corporation by the name of "El Al Workers' Trust Holdings Ltd." (the Workers' Corporation) – 6.4%; the State of Israel -1.1%; Others – 45.5%.

For further details on the Company's privatization, see Note 1b of the December 31 Periodic Report.

Ratio of Company Stock Holdings

As of March 31 2008 (Undiluted):



Financial Status (Consolidated Reports)

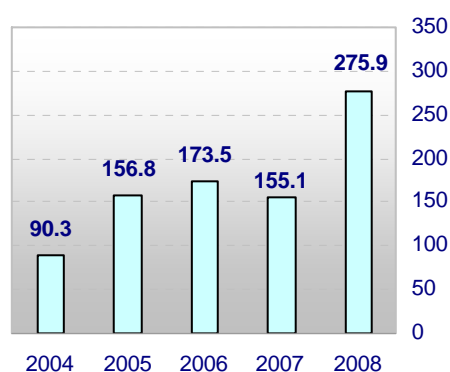
	31.03.2008	31.12.2007 *	change	
	in thousands US dollars	in thousands US dollars	in thousands US dollars	%
Assets				
Cash and short-term investments	275,857	267,303	8,554	3%
Trade accounts receivable	190,241	143,617	46,624	32%
Receivables and other current assets	23,303	22,254	1,049	5%
Current derivative financial instruments	43,565	25,530	18,035	71%
Prepaid expenses	31,885	25,096	6,789	27%
Inventory	17,775	15,981	1,794	11%
Long-term bank deposits	2,359	2,207	152	7%
Investees	2,324	2,268	56	2%
Investments in another company	1,739	1,715	24	1%
Long-term derivative financial instruments	8,116	7,570	546	7%
Fixed assets	1,274,243	1,285,752	(11,509)	(1%)
Intangible assets	5,522	4,388	1,134	26%
	1,876,929	1,803,681	73,248	4%
Equity & liabilities				
Short-term bank borrowings	66,176	66,316	(140)	(0%)
Trade accounts payable	177,971	167,420	10,551	6%
Payables and other current liabilities	59,937	47,185	12,752	27%
Current accruals	95,496	89,621	5,875	7%
Dividend declared	0	3,008	(3,008)	
Current derivative financial instruments	1,407	0	1,407	
Current liability for employee benefits	96,544	87,578	8,966	10%
Deferred income	258,754	188,751	70,003	37%
Long-term loans from financial institutions	705,223	713,793	(8,570)	(1%)
Accrued severance pay, net	53,694	54,751	(1,057)	(2%)
Long-term loans from others	327	423	(96)	(23%)
Long-term derivative financial instruments	12,184	1,415	10,769	761%
Long-term accruals	16,384	0	16,384	
Deferred income taxes	57,125	64,576	(7,451)	(12%)
Shareholders' equity	275,707	318,844	(43,137)	(14%)
	1,876,929	1,803,681	73,248	4%

1. The primary changes in assets, liabilities and equity capital items as of March 31 2008 compared to December 31 2007 are:

- An increase in cash balances and short term investments primarily deriving from a positive cash flow from current activity during the period in question to the amount of \$41.2 million, offset by investments in fixed and other assets to the amount of \$20.6 million, loan redemption to the amount of \$8.2 million and dividend payments to the amount of \$3.1 million.
- An increase in customer balances primarily deriving from an increase in passenger sales due to seasonal changes.
- An increase in the balance of current derivative financial instruments deriving from an increase in the fair value of jet fuel and exchange rate hedging.
- The decrease in fixed assets derives primarily from periodic depreciation expenses for the accounting period, offset by investments in fixed assets performed in the reported quarter.
- The increase in intangible assets derived largely from payments on account of the ERP plan.
- An increase in the supplier and service provider balance as a result of increased activity and from increases in jet fuel prices as well as from the revaluation of the euro and shekel compared to the dollar.
- An increase in creditors and credit balances deriving mainly from an increase in port taxes payable due to seasonal changes and increases in interest expenses payable,
- An increase in current provisions and long term provisions, mainly deriving from a \$20 million provision performed by the Company regarding the investigation by the Antitrust Division of the U.S. Justice Department, in the matter of air cargo transport services - see Notes 5b1 and 10c of the March 31 2008 Interim Financial Statements.
- An increase in current liabilities for employee benefits deriving mainly as a result of an increase in vacation day liabilities as a result of the shekel's revaluation versus the dollar and the increase of the recovery provision.
- An increase in advance income deriving primarily as a result of an increase in the sale of flight tickets yet to be utilized due to seasonal changes.

- The balance of long term loans (including current maturities) decreased due to current redemption of long term loans.
- An increase in other financial liabilities derived from a decrease in the fair value of interest hedging as a result of a drop in the LIBOR rate in the reported period.
- The decrease in deferred tax liability derived primarily from tax income listed by the Company in the reported period.
- A decrease in the Company's equity capital deriving primarily from the loss in the reported period is offset by an increase in capital reserves from cash flow hedging recognized directly to equity.

**Cash and Cash Equivalents And Short Term Investments
As of March 31 for the Following Years:
(In Millions of Dollars)**



As of March 31 2008 the Company has a working capital deficit to the amount of \$173.7 million compared to a \$150.1 million deficit on December 31 2007. The Company's current ratio as of March 31 2008 is 77.0% compared to 76.9% on December 31 2007.

The increase in working capital deficit derives mainly from growth in advance income resulting from an increase in the sales of plane tickets yet to be utilized, offset by growth in customers and derivative financial instruments.

The working capital deficit derives from the Company's current liabilities which include two key components: advance income from the sale of plane tickets as well as current liabilities from long term loans. These components, which are characterized by current business cyclicity, are included in the current liabilities and in effect, explain the bulk of the working capital deficit.

Analysis of El Al Operating Business Results

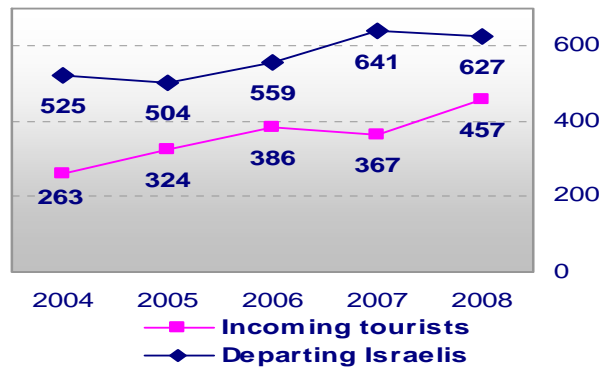
I. Market Data

Passenger and Cargo Traffic at BGA	Jan - Mar 2008 in Thousands	Jan - Mar 2007 in Thousands	Change	
			In Thousands	%
Incoming tourists *	457	367	90	24%
Departing Israelis *	627	641	(14)	(2%)
Cargo import - tons **	38	34	5	15%
Cargo export - tons **	55	54	1	3%

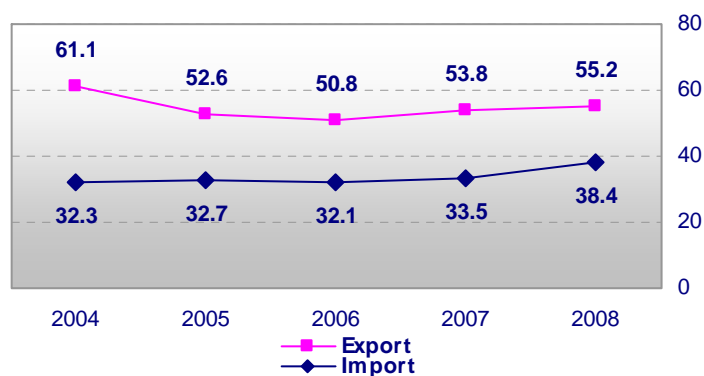
* Source - the Central Bureau of Statistics

** Not including cargo in transit

Incoming Tourism Movement to Israel and Outgoing Residents, First Quarter of the Following Years: (In Thousands)



Import and Export of Airborne Cargo to and from Israel, First Quarter of the Following Years: (In Thousands)



Company operating Data

	Jan - Mar 2008	Jan - Mar 2007	change
Passenger leg (scheduled and chartered) - in thousands	858	782	10%
RPK (scheduled) - in millions	3,923	3,724	5%
ASK (scheduled) - in millions	4,863	4,522	8%
Load factor (scheduled)	80.7%	82.4%	(2%)
The Company's market share (scheduled and chartered)	42.5%	41.9%	1%
Flown cargo, in thousands of tons	36	38	(6%)
RTK - in millions	196	198	(1%)
Weighted flying hours (including leased (*equipment) - in thousands	41.2	39.1	5%
<u>Average man-years (El AL only):</u>			
Permanent	3,692	3,564	4%
Temporary	2,280	2,232	2%
Total	5,972	5,796	3%
Aircraft in operation - end of period - number of units	36	35	1
Average age of owned fleet at the end of the period - in years	15.0	15.1	-0.1

Legend:

Passenger Segment – one way ticket receipt.

RPK – Revenue Passenger/Kilometer – the number of paid passengers times the flight distance.

ASK – Available Seat/Kilometer – the number of seats offered for sale times the flight distance.

RTK – Revenue Ton/Kilometer – the weight in tons of paid airborne cargo times the flight distance.

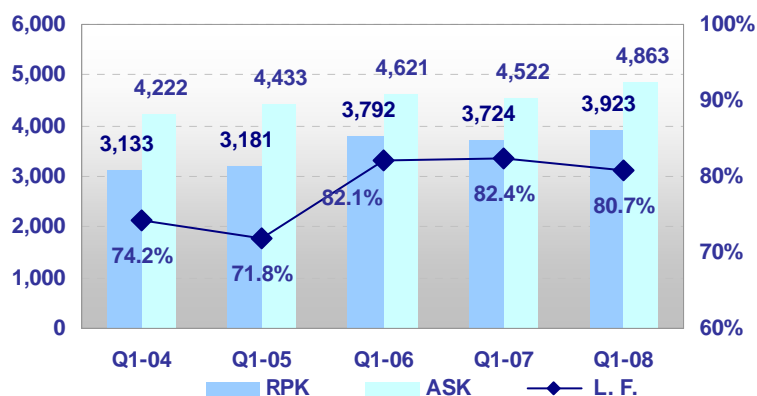
Passenger Load Factor – passenger/km flight expressed as percentage of seat/km available.

* Flight hours are calculated in Boeing 767/757 terms.

Airplane calculation values: Boeing 767/757=1.0; Boeing 747=2.0; Boeing 777=1.6; Boeing 737=0.6.

These calculation values were determined based on an estimate of the total expenses for each type of plane and are used consistently to calculate weighed flight hours as an indicator of the scope of flight activity.

Operational Indices, First Quarter for the Following Years: (In Millions)



II. Profit and Loss Data

For the three month period ending March 31 2008 (consolidated Reports):

	<u>Jan - Mar</u> 2008		<u>Jan - Mar</u> 2007		<u>change</u>	
	in Thousands of Dollars US	% of Operating Revenues	in Thousands of Dollars US	% of Operating Revenues	in Thousands of Dollars US	%
Operating revenues	471,466	100%	388,634	100%	82,832	21%
Operating expenses	(414,774)	(88.0%)	(328,261)	(84.5%)	(86,513)	26%
Gross profit	56,692	12.0%	60,373	15.5%	(3,681)	(6%)
Selling expenses	(55,992)	(11.9%)	(42,357)	(10.9%)	(13,635)	32%
General and administrative expenses	(24,915)	(5.3%)	(23,123)	(5.9%)	(1,792)	8%
Other operating expenses (income),net	21,374	4.5%	(5,861)	(1.5%)	27,235	(465%)
Operating loss before financing	(45,589)	(9.7%)	754	0.2%	(46,343)	(6146%)
Financing expenses	(23,751)	(5.0%)	(13,636)	(3.5%)	(10,115)	74%
Financing income	11,016	2.3%	2,968	0.8%	8,048	271%
Loss before income taxes	(58,324)	(12.4%)	(9,914)	(2.6%)	(48,410)	488%
Income taxes	9,668	2.1%	2,648	0.7%	7,020	265%
Loss after taxes	(48,656)	(10.3%)	(7,266)	(1.9%)	(41,390)	570%
Company's equity in results of affiliates, net	56	0.0%	44	0.0%	12	27%
Loss for the period	(48,600)	(10.3%)	(7,222)	(1.9%)	(41,378)	573%

The primary factors influencing the business results for the three month period ending March 31 2008, compared to the same period last year are:

- The increase in operating income deriving mainly from an increase in income from passengers as a result of an increase in the amount of passengers flown and in the average income per passenger per kilometer. In addition, there was an increase in income from cargo and other income such as the sale of duty free items, charter flights and maintenance services to outside factors.
- The first three months of 2008 saw an increase in the Company's operating costs relative to the comparable period last year deriving mainly from an increase in jet fuel expenses and salary expenses as detailed below, as well as an increase in other operating costs, mainly as a result of an increase in the amount of passengers carried by the Company and the devaluation of the dollar relative to other currencies.

Salary expenses for the first three months of 2008 increased primarily as a result of the revaluation of the average exchange rate of the shekel versus the dollar by some 14% compared with the same period last year, which led to an increase both in shekel salary expenses in dollar terms as well as the Balance Sheet liability from employee benefits, as well as a result of an increase in the average number of employees in the quarter deriving from an increase in activities in the reported quarter relative to the comparable quarter last year. At the same time, the rate of salary expenses from the Company's turnover for the

reported period remained unchanged in relation to their portion of the turnover in the comparable period last year. Regarding the influence the changes in the shekel's rates of exchange vs. the dollar had on the Company's liabilities, see Item 3.4 below.

- The Company's jet fuel expenses increase from some \$101.4 million in the first quarter of 2007 to some \$163.9 million in the reported quarter, this after receiving hedging receipts to the amount of \$6.3 million in the first three months of 2008 (compared to hedging of \$6.1 million in the comparable period last year). The increase in fuel costs derived mainly from a 55% increase in the Company's effective jet fuel prices.

In the first quarter of 2008, fuel costs constituted 34.8% of the Company's turnover compared to 26.1% for the same quarter last year. As for jet fuel price hedging, see Item 6.2 below.

- An increase occurred in sales expenses during the first three months of 2008, mainly due to an increase in salary expenses and in distribution costs, primarily as a result of an increase in income from passengers.
- An increase occurred in administrative and general costs, mainly as a result of the increase in salary costs, but their portion of the turnover in the reported period dropped compared to their portion of the turnover in the same period last year.
- The Company listed additional expenses to the amount of \$21.4 million, net, for the reported period, mainly due to a \$20 million provision made by the Company for the investigation by the Antitrust Division of the U.S. Justice Department into the field of airborne cargo shipping services - see Notes 5b and 10c of the Interim Financial Statements dated March 31 2008.

On the other hand, the Company listed \$5.9 million in other income during the first quarter of 2007, mainly as a result of compensation from Boeing and the vacating of an asset in Heathrow Airport.

- The increase in financing costs in the first three months of 2008 derived mainly from a decrease in the fair value of the Company's interest hedging as a result of a decrease in LIBOR interest rates in the reported period relative to the comparable quarter last year, as well as from exchange rate differentials deriving from the dollar's devaluation versus other currencies. Interest expenses on the Company's loans remained unchanged, this as a result of the decrease in interest described above which was offset by the increase in the Company's loan inventory.
- An increase occurred in the Company's financing income deriving mainly from an increase in fair value and in receipts from exchange rate hedging performed by the Company, as well

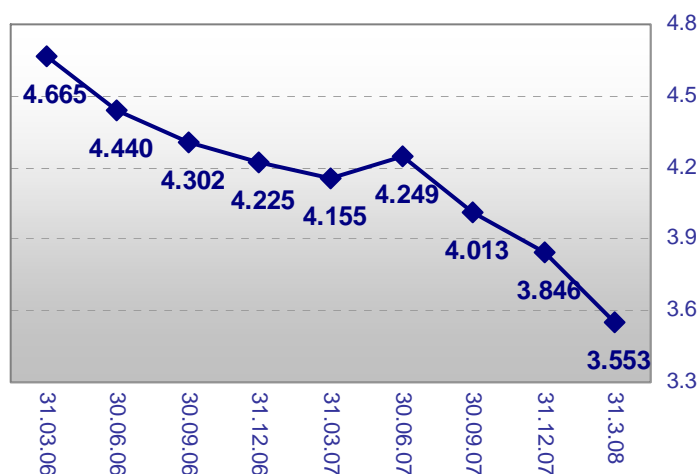
as due to an increase in interest income on deposits due to an increase in the Company's deposits inventory.

- A tax benefit to the amount of \$9.7 million was listed in the first three months of 2008 compared to a \$2.6 million tax benefit in the same period last year, this due to an increase in pre-tax loss in the quarter relative to the pre-tax loss in the same quarter last year.

III. Influence of the Exchange Rate Changes on the Company's Employee Benefit Liabilities.

In the three month period ending March 31 2008, the shekel's exchange rate was revaluated at a rate of 7.6% versus the dollar, compared to a revaluation of 1.7% of the shekel's rate vs. the dollar occurring in the same period the previous year.

Dollar Exchange Rate – Shekel per Day:



The Company has liabilities due to employee benefits primarily for a retirement plan and for sick and vacation day redemption as of March 31 2008 to the amount of \$99 million,

As most of these liabilities are in shekels while the Company's functioning currency is the dollar, these liabilities must be translated to dollars, which leads to differentials deriving from changes in the shekel's exchange rate relative to the dollar. These exchange rate changes are not single-direction, and lead to income or expenses, accordingly. These expenses or income have no influence on the Company's short term cash flow or operating costs. In order to compare the Company's long term business results, these expenses or income must be neutralized.

Expenses due to this component were listed at \$5.8 million for the quarter ending March 31 2008, compared to the same period last year, in which losses due to this component to the amount of \$2.1 million were listed.

The following details the Company's business results, neutralized from the influence of the exchange rate on the liability component due to employee-employer relations, as described above:

Three-month period ended March 31,	Before		After	
	Neutralizing The Exchange-Rate Effect on the Accrued Severance Pay			
	2008	2007	2008	2007
	In Thousands of Dollars U.S.			
Operating expenses	414,774	328,261	412,175	327,044
Gross profit	56,692	60,373	59,291	61,590
Gross profit rate	12.0%	15.5%	12.6%	15.8%
Selling, general and administrative expenses	80,907	65,480	80,578	65,247
Other operating expenses (income),net	21,374	(5,861)	18,512	(6,490)
Operating loss before financing expenses	(45,589)	754	(39,799)	2,833
Operating loss rate before financing	(9.7%)	0.2%	(8.4%)	0.7%
Net loss for the period	(48,600)	(7,222)	(42,810)	(5,143)
Net loss for the period rate	(10.3%)	(1.9%)	(9.1%)	(1.3%)

IV. Segment Report

The following is data by geographic sectors on a consolidated basis:

Three-month period ended:					
31.03.2008 -(unaudited)	North America	Europe	Central Asia & Far East	Rest of the world	Total
(in millions US dollars)					
Segmental income	157.9	202.4	90.9	12.5	463.6
Income not attributed to segments					7.8
Total income					471.5
Segmental operating profit (loss)*	0.4	15.8	8.2	1.9	26.3
Cross-segmental expenses, net					(71.9)
Loss from operations before financing expenses					(45.6)
% of segmental income	.3%	7.8%	9.0%	15.2%	
31.03.2007 (unaudited)-					
Segmental income	129.5	160.4	78.8	9.8	378.6
Income not attributed to segments					10.1
Total income					388.6
Segmental operating profit (loss)*	0.1	19.1	8.1	3.0	30.3
Cross-segmental expenses, net					(29.5)
Profit from operations before financing expenses					0.8
% of segmental income	.1%	11.9%	10.3%	30.5%	
For year ended:					
31.12.2007 -(audited)					
Segmental income	674.7	822.3	356.8	42.1	1,895.9
Income not attributed to segments					36.5
Total income					1,932.5
Segmental operating profit (loss)*	56.7	144.1	33.4	11.2	245.4
Cross-segmental expenses, net					(150.7)
Profit from operations before financing expenses					94.7
% of segmental income	8.4%	17.5%	9.4%	26.6%	

* Income is attributed to geographic sectors by flight destination.

The following are the primary changes in the reported quarter relative to the same quarter last year:

An increase occurred in income in all of the Company's geographic sectors in the reported quarter.

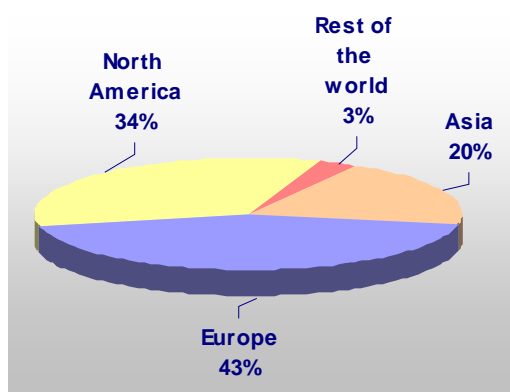
No significant change occurred in the rate of operational earnings from the North American sectors' turnover.

A decrease occurred in the European sector's operational earnings and in their portion of the turnover mainly as a result of the increase in cost per seat/km as well as from increased costs of fixed expenses as a result of the revaluation of the euro vs. the dollar.

NO significant change occurred in the Central Asia and East Asian sectors' operational earnings, but their portion of the turnover dropped due to an increase in direct receipts.

For the remainder of the world, a decrease occurred in operational earnings and in the portion of the Company's turnover mainly as a result of a drop in occupancy rates on passenger flights, which hurt the average income per seat/km, while expenses per seat/km have grown. Note that despite the mild drop in total operational earnings in the various sectors, the Company's total operational loss increased significantly during the first quarter of 2008 compared to the same quarter last year, this mainly as a result of the provision for the investigation in the matter of air cargo shipping to the amount of \$20 million carried out by the Company in the reported period compared to unique income to the amount of \$7.8 million in the first quarter of 2007, as well as an increase in salary expenses (without salary expenses attributed to sectors), as explained in Item 3.3 of the Report of the Board of Directors, and from a price increase in unattributed fixed expenses.

Division of Income Attributed to Geographic Sectors January-March 2008:



Seasonality

Ben Gurion Airport passenger traffic is characterized by a high level of seasonality. Most activity is during the summer months, with the peak being July-September. The winter months are

characterized on the one hand by low levels of activity in passenger traffic, but on the other hand, cargo shipping of agricultural exports to Europe is higher during the latter months.

Liquidity and Financing Sources

Cash flow movements for the three month period ending March 31 2008 compared to the same period last year are:

	Jan - Mar 2008 in Thousands of Dollars US	Jan - Mar 2007 in Thousands of Dollars US	Change in Thousands of Dollars US
Cash flows from operating activities	41,157	31,855	9,302
Cash flows used for investing activities	44,608	(34,498)	79,106
Cash flows used for financing activities	(12,208)	(6,430)	(5,778)
Net decrease in cash	73,557	(9,073)	82,630

The Company had a cash flow from joint activity of \$41.2 million in the quarter ending March 31 2008 (Compared to \$31.9 in the comparable period last year).

The change in the Company's cash flow from current activity in the three month period ending March 31 2008, compared to the same period last year, derives primarily from changes in the advance payment from the sale of plane tickets yet to be realized item as well as from an increase in supplier balances, in creditors and in liabilities deriving from employee benefits partially offset by the increase in pre-tax loss in the reported period and an increase in the Customers item.

The Company received \$44.6 million from investment activity in the first quarter of 2008 (compared to \$34.5 million used in the same period last year), mainly as a result of the realization of short term deposits to the amount of \$65 million, offset by investments in fixed and intangible assets to the amount of \$20.6 million.

The Company spent \$12.2 million on financing activities in the three month period ending March 31 2008, mainly for the redemption of long term loans to the amount of \$8.6 million and dividend payments to the amount of \$3.1 million (compared to \$6.4 million spent in the comparable period last year).

Cash and cash equivalents and short term investments as of March 31 2008 amounted to \$275.9 million compared to \$267.3 million as of December 31 2007 (on March 31 2007 – \$155.1 million).

Qualitative Report Concerning Market Risk Exposure and Management

I. The Company's Policy Regarding the Management of Market Risks, Those Responsible for their Management, Means of Supervision and Policy Realization

The Company possesses a Board of Directors Committee for the purpose of managing market risks led by the Chairman of the Finance, Budget and Balance Sheet Committee, Mr. Nadav Palti, which is responsible for determining the Company's policy for covering existing exposure, The CFO is responsible for executing the policy and reporting to the Market Risk Management Committee.

The Market Risk Management Committee sets the future jet fuel consumption frameworks to be covered via financial hedging. In addition, from time to time the Committee examines the need to invest in derivatives, to diminish the exposure from interest risks and currency risks.

Over the course of the account period, the Company continued to implement corporate policy as regards market risk management and supervisory measures, as described in the Report of the Board of Directors on the State of the Corporation's Affairs dated December 31 2007 and in the Notes to the Financial Statements of that date.

Between January 1 2008 and the publishing of this Report, the Company held regular meetings of the Risk Management Committee, a Board of Directors subcommittee. In these meetings Company management discussed the Company's status in the matter exposure related to fuel, interest and rates of exchange.

A decision was reached as part of said discussions not to deviate from existing policy

For details on the policy implemented, see Items 6.2, 6.3 and 6.4 below.

II. Jet Fuel Price Hedging

The following is data on positions of defense agreements of jet fuel prices carried out by the Company (recognized) as of March 31 2008.

	Type of transaction	Period	Transaction currency	Fair value in thousand US dollars
HJFP	Financial instruments	Up to One year	US dollar	33,460
HJFP	Financial instruments	Over One year	US dollar	8,116
Total			US dollar	41,576

Some of the jet fuel hedging instruments were designated as defensive instruments.

For further details, see Note 1n of the Interim Financial Statements dated March 31 2008.

III. Hedging of Interest on Loans

The Company carries out agreements with Israeli bank corporations to defend against the exposure existing in the Company's long term credit portfolio, due to changes in interest rates. No additional transactions took place in the reported period.

From an accounting standpoint, a portion of the above financial instruments were not intended for use for defense agreement while the remainder was designated for defense agreements.

After the above hedging was carried out, as of March 31 2007 some 55% of the balance of the Company's loans has been at fixed interest rates. The portion of Company loans at fixed rates has gradually decreased - this for a five year period.

The fair value of the interest hedging instruments as of March 31 2008 is a negative sum of \$13.6 million, presented in the Financial Statements as part of the Company's current liabilities and long term liabilities under Derivative Financial Instruments.

For further details on such transactions, see Note 1m3 and 1n of the March 31 2008 Interim Financial Statements.

6.4 Exchange Rate Hedging Agreements

In 2007 the Company entered a number of financial transactions meant to protect the Company from decreases in the dollar's rate of exchange versus the shekel in 2008. These transactions are not intended to be used as defense agreements in an accounting sense.

The fair value of these instruments is \$10.1 million as of March 31 2008, presented in the Financial Statements as part of current assets under Derivative Financial Instruments.

6.5 Report on Sensitivity Analysis

The following is the fair value sensitivity analysis of the financial instruments sensitive to changes possible in the risk factors to which they are exposed:

The sensitivity analysis was executed as regards the fair value of the financial instruments as of March 31 2008.

The following tables show sensitivity tests of financial instruments to changes in market factors:

a. Sensitivity to Changes in NIS/USD Exchange Rates – in Thousands of Dollars:

	Gain (loss) from Changes		Fair value 3,553 NIS/\$	Gain (loss) from Changes	
	10% Increase 3,908 NIS/\$	10% Increase 3,731 NIS/\$		5% Decrease 3,375 NIS/\$	10% Decrease 3,198 NIS/\$
Cash and cash equivalents	(121)	(63)	1,327	70	147
Trade accounts receivable	(184)	(97)	2,031	107	225
Receivables and other current assets	(566)	(297)	6,229	329	691
Current derivative financial instruments	(918)	(482)	10,105	533	1,122
Long-term bank deposits	(214)	(113)	2,359	124	262
Total financial Assets	(2,003)	(1,052)	22,051	1,163	2,448
Short-term bank borrowings	10	5	(109)	(6)	(12)
Trade accounts payable	2,230	1,171	(24,549)	(1,295)	(2,725)
Payables and other current liabilities	25	13	(273)	(14)	(30)
accruals	4,169	2,190	(45,899)	(2,421)	(5,095)
Current liability for employee benefits	7,551	3,966	(83,124)	(4,384)	(9,227)
Total financial liabilities	13,985	7,345	(153,954)	(8,120)	(17,090)
Exposure in linkage balance sheet due to surplus financial liabilities over financial assets *	11,982	6,293	(131,903)	(6,957)	(14,642)

- Not including exposure due to the influences of changes in rates of exchange on liabilities due to employee benefits, as detailed in Item 3.4

b. Sensitivity to Changes in Euro/USD Exchange Rates – in Thousands of Dollars:

	Gain (loss) from Changes		Fair value 0.678 Euro/\$	Gain (loss) from Changes	
	10% Increase 0.746 Euro/\$	5% Increase 0.712 Euro/\$		5% Decrease 0.644 Euro/\$	10% Decrease 0.610 Euro/\$
Cash and cash equivalents	(883)	(463)	9,690	512	1,080
Trade accounts receivable	(1,814)	(950)	19,897	1,050	2,218
Receivables and other current assets	(143)	(75)	1,573	83	175
Total financial Assets	(2,840)	(1,488)	31,160	1,645	3,474
Short-term bank borrowings	38	20	(416)	(22)	(46)
Trade accounts payable	2,613	1,369	(28,667)	(1,513)	(3,196)
Payables and other current liabilities	958	502	(10,505)	(555)	(1,171)
Current liability for employee benefits	59	31	(644)	(34)	(72)
Total financial liabilities	3,667	1,921	(40,232)	(2,124)	(4,485)
Exposure in linkage balance sheet due to surplus financial liabilities over financial assets*	827	433	(9,072)	(479)	(1,011)

* Not including exposure due to the influences of changes in rates of exchange on liabilities due to employee benefits, as detailed in Item 3.4

c. Sensitivity of Jet Fuel Hedging to Changes in Jet Fuel Prices – in Millions of Dollars:

According to the principles of the model, a grouping was performed of jet fuel hedging instruments reacting in a similar manner to market factors, as no material loss occurred of information needed to understand the Company's exposure to market risks as a result of the grouping.

Type of instrument	Gain from changes		Fair value	Loss from changes	
	Increase 10% 3.493 \$/gallon	Increase 5% 3.334 \$/gallon		Decrease 5% 3.016 \$/gallon	Decrease 10% 2.858 \$/gallon
3 WAY - transactions	5.9	3.2	41.6	(4.4)	(10.4)

* Jet fuel price in the Mediterranean Basin area on March 31 2008, according to which the fair value of the Company's jet fuel hedging agreements is calculated.

d. Sensitivity of Hedging Interest to Changes in Market Interest Rates – in Thousands of Dollars

In accordance with the principles of the model, a grouping was performed of interest hedging instruments reacting similarly to market factors (swap agreements with knock out not designated for defense, IRS transactions designated for defense, IRS transactions not designated for defense and

Cylinder transaction not designated for defense), as no significant information needed to understand the Company's exposure to market risks was lost as a result of the grouping.

Type of instrument	Gain from changes		Fair value *	Gain (Loss) from changes	
	Increase 10% in interest rate	Increase 5% in interest rate		Decrease 5% in interest rate	Decrease 10% in interest rate
SWAP transactions with KNOCK OUT – not designated for defense	3,697	2,663	(4,228)	516	(586)
IRS transactions – designated for defense	819	413	(2,599)	(404)	(816)
IRS transactions - not designated for defense	7,891	5,487	(4,346)	601	(1,876)
Cylinder transactions - not designated for defense	448	225	(2,418)	(229)	(461)
Total	12,855	8,789	(13,591)	484	(3,739)

* Fair value calculated at LIBOR interest on the market on the Balance Sheet date at the following rates: LIBOR for 3 months: 2.69%; Libor for 6 months: 2.61%; and LIBOR for 12 months 2.49%, each as the case may be and as per the relevant transaction.

e. Sensitivity of Hedging the NIS/Dollar Exchange Rate at Market Exchange Rates – Thousands of Dollars

Type of instrument	Loss from changes		Fair value NIS/\$	Gain from changes	
	Increase 10% in exchange rate	Increase 5% in exchange rate		Decrease 5% in exchange rate	Decrease 10% in exchange rate
	3,908	3,731	3,553	3,375	3,198
Cylinder transactions – not designated for defense.	(8,357)	(4,692)	10,105	4,791	10,523

Critical Accounting Estimates

In implementing the Company's accounting policy, Company management must, under certain circumstances, exercise its accounting judgment as regards estimates and assumptions influencing the sums presented in the Financial Statements.

For information on critical accounting estimates see Note 2 of the Company's Interim Financial Statements dated March 31 2008.

Linkage Basis Report

The following is a report on linkage bases on a consolidated basis as of March 31 2008:

	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)						
Assets						
Cash and cash equivalents	144,885	1,327	9,690	4,325	-	160,227
Short-term investments	115,630	-	-	-	-	115,630
Trade accounts receivable	148,710	2,031	19,897	19,603	-	190,241
Receivables and other current assets	13,344	6,229	1,573	2,157	-	23,303
Current derivative financial instruments	33,460	10,105	-	-	-	43,565
Prepaid expenses	-	-	-	-	31,885	31,885
Inventory	-	0	-	-	17,775	17,775
Long-term bank deposits	0	2,359	-	-	-	2,359
Investees	1,229	-	-	-	1,095	2,324
Investments in another company	1,739	-	-	-	-	1,739
Long-term derivative financial instruments	8,116	-	-	-	-	8,116
Fixed assets	-	-	-	-	1,274,243	1,274,243
Intangible assets	-	-	-	-	5,522	5,522
	467,113	22,051	31,160	26,085	1,330,520	1,876,929
Liabilities & Equity						
Short-term bank borrowings	(65,651)	(109)	(416)	0	-	(66,176)
Trade accounts payable	(109,542)	(24,549)	(28,667)	(15,213)	-	(177,971)
Payables and other current liabilities	(43,209)	(273)	(10,505)	(5,950)	-	(59,937)
Current accruals	(49,597)	(45,899)	0	0	-	(95,496)
Current derivative financial instruments	(1,407)	0	0	0	-	(1,407)
Current liability for employee benefits	(12,662)	(83,124)	(644)	(114)	-	(96,544)
Deferred income	0	0	0	0	(258,754)	(258,754)
Long-term loans from financial institutions	(705,223)	0	0	0	-	(705,223)
Accrued severance pay, net	(3,311)	(42,318)	(956)	(7,109)	-	(53,694)
Long-term loans from others	(327)	0	0	0	-	(327)
Long-term derivative financial instruments	(12,184)	0	0	0	-	(12,184)
Long-term accruals	(16,384)	0	0	0	-	(16,384)
Deferred income taxes	0	0	0	0	(57,125)	(57,125)
Shareholders' equity	0	0	0	0	(275,707)	(275,707)
	(1,019,497)	(196,272)	(41,188)	(28,386)	(591,586)	(1,876,929)
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	(552,384)	(174,221)	(10,028)	(2,301)	738,934	-

The following is a report on linkage bases on a consolidated basis as of March 31 2007:

	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)						
Assets						
Cash and cash equivalents	117,249	12,290	1,768	5,778	-	137,085
Short-term investments	18,000	-	-	-	-	18,000
Trade accounts receivable	140,857	107	10,244	15,836	-	167,044
Receivables and other current assets	17,424	6,645	593	1,755	-	26,417
Current derivative financial instruments	9,381	-	-	-	-	9,381
Prepaid expenses	-	-	-	-	25,393	25,393
Inventory	-	0	-	-	18,927	18,927
Long-term bank deposits	0	1,926	-	-	-	1,926
Investees	1,229	-	-	-	1,095	2,324
Investments in another company	1,855	-	-	-	-	1,855
Long-term derivative financial instruments	8,813	-	-	-	-	8,813
Fixed assets	-	-	-	-	1,163,810	1,163,810
Intangible assets	-	-	-	-	3,376	3,376
	314,808	20,968	12,605	23,369	1,212,601	1,584,351
Liabilities & Equity						
Short-term bank borrowings	(103,947)	-15	(605)	(114)	-	(104,681)
Trade accounts payable	(97,881)	-22,260	(15,690)	(13,112)	-	(148,943)
Payables and other current liabilities	(42,261)	-88	(3,670)	(2,431)	-	(48,450)
Current accruals	(46,319)	-28,771	0	0	-	(75,090)
Dividends offered for payment	(852)	-21,724	0	0	-	(22,576)
Current liability for employee benefits	(3,770)	-71,886	0	0	-	(75,656)
Deferred income	0	-	0	0	(191,528)	(191,528)
Long-term loans from financial institutions	(560,100)	-	0	0	-	(560,100)
Accrued severance pay, net	(10,207)	-85,028	(6,610)	(3,416)	-	(105,261)
Long-term loans from others	(643)	-	0	0	-	(643)
Long-term derivative financial instruments	(224)	-	0	0	-	(224)
Deferred income taxes	0	-	0	0	(46,673)	(46,673)
Shareholders' equity	0	-	0	0	(204,526)	(204,526)
	(866,204)	(229,772)	(26,575)	(19,073)	(442,727)	(1,584,351)
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	(551,396)	(208,804)	(13,970)	4,296	769,874	-

The following is a report on linkage bases on a consolidated basis as of December 31 2007:

	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)						
Assets						
Cash and cash equivalents	63,447	18,020	842	4,361	-	86,670
Short-term investments	172,000	8,633	-	-	-	180,633
Trade accounts receivable	99,917	422	20,653	22,625	-	143,617
Receivables and other current assets	12,263	3,912	4,235	1,844	0	22,254
Current derivative financial instruments	21,881	3,649	-	-	0	25,530
Prepaid expenses	-	-	-	-	25,096	25,096
Inventory	-	0	-	-	15,981	15,981
Long-term bank deposits	-	2,207	-	-	-	2,207
Investees	1,228	-	-	-	1,040	2,268
Investments in another company	1,715	-	-	-	0	1,715
Long-term derivative financial instruments	7,570	-	-	-	0	7,570
Fixed assets	-	-	-	-	1,285,752	1,285,752
Intangible assets	-	-	-	-	4,388	4,388
	380,021	36,843	25,730	28,830	1,332,257	1,803,681
Liabilities & Equity						
Short-term bank borrowings	(65,017)	(292)	(1,007)	0	-	(66,316)
Trade accounts payable	(98,059)	(26,902)	(27,645)	(14,814)	-	(167,420)
Payables and other current liabilities	(37,492)	(3,783)	(3,492)	(2,418)	-	(47,185)
Current accruals	(47,666)	(41,955)	0	0	-	(89,621)
Dividends offered for payment	0	(3,008)	0	0	-	(3,008)
Current liability for employee benefits	(10,441)	(77,137)	0	0	-	(87,578)
Deferred income	0	0	0	0	(188,751)	(188,751)
Long-term loans from financial institutions	(713,793)	0	0	0	-	(713,793)
Accrued severance pay, net	(6,489)	(37,985)	(6,536)	(3,741)	-	(54,751)
Long-term loans from others	(423)	0	0	0	-	(423)
Long-term derivative financial instruments	(1,415)	0	0	0	-	(1,415)
Deferred income taxes	0	0	0	0	(64,576)	(64,576)
Shareholders' equity	0	0	0	0	(318,844)	(318,844)
	(980,795)	(191,062)	(38,680)	(20,973)	(572,171)	(1,803,681)
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	(600,774)	(154,219)	(12,950)	7,857	760,086	-

Disclosure in the Board of Directors Report on the Matter of the Approval of the Financial Statements

The Company's supervisory body is its Board of Directors. Board members as of the approval of these Financial Statements are: Prof. Israel (Izzy) Borovich – Chairman of the Board, Ms. Tamar Moses Borovich – Deputy Chairperson, Nadav Palti – Chairman of the Finance, Budget and Balance Committee, Ami Sagis, Shimon Katzenelson – Outside Director, Yair Rabinowitz – Outside Director, Amnon Lipkin-Shahak, Eran Ilan and Yehuda Levi.

Several committees operate in the framework of the Board of Directors, among them the Audit Committee, the Market Risk Management Committee, the Human Resources and Appointments Committee as well as the Finance, Budget and Balance Committee which numbers four members, among them an outside director. The four committee members have accounting and financial capabilities as defined in the Companies Law of 5759-1999 and the resulting regulations.

A draft of the Financial Statements is sent to the Board members for advance study.

The Finance, Budget and Balance Committee convenes for an extensive and in-depth discussion on the Financial Statement draft with the Company Auditor present. The CEO and CFO present the Financial Statements to the Committee members in great detail, including detailed financial analyses of the Company's performance in the reported period.

The Committee studies the material issues in the financial reporting, including material transactions not part of the regular course of business – in the event that such exist, the critical estimates and assessments implemented in the Financial Statements, the likelihood of the data, accounting policy implemented and changes thereof, if any, implementation of the full disclosure principle in the Financial Statements as well as various aspects of supervision and risk management.

When complex or essential issues are at stake, special Finance, Budget and Balance Committee meetings are held on the subject at hand, with the Auditor's participation.

The Committee holds discussions on the Financial Statements placed before it, which include questions addressed to the Company executives present and the Auditor. In addition, the Auditor is asked to present the Committee members with his remarks – if such exist, on subjects including the accounting policy implemented and special issues that arose throughout the audit.

The committee reaches a decision to recommend that the Company's Board of Directors approve the Financial Statements, subject to modifications, changes and additions – if such are required by the Committee members.

The Financial Statements are presented to the Board members in a separate meeting, with the participation of the CEO, CFO and other senior Company executives as well as the Auditor.

In this forum as well, a discussion is held on the Statements, including questions addressed to the Auditor and to the Company's management, and the issues particular to the reported period are presented. The Board of Directors' decision whether to approve the Financial Statements is reached at the conclusion of discussions.

Explanation on the Subjects Addressed by the Company's Accountants in the Letter of Review for the Interim Financial Statements

In their letter reviewing the Interim Financial Statements, the Company's accountants would like to direct attention to Note 5 of the Interim Financial Statements – concerning legal proceedings against the Company and to Note 1z concerning restatement due to changes in accounting treatment of jet fuel hedging.

Although the issues in question do not cause any change to be made to the accountants' uniform version, attention is required due to their material influence on the Company.

Events after the Balance Sheet Date

- a. Between the Balance Sheet date and prior to the publishing of the Financial Statements for the first quarter of 2008, further revaluation occurred in the rate of the shekel vs. the dollar at a rate of 0.21 NIS (6%). This resulted in an additional cash flow expense of \$5 million. At the same time, the Company holds dollar rate defense agreements (see Item 6.4 of the Board of Directors' Report), offsetting part of the influence of the dollar's devaluation.

In addition to the above, the devaluation of the dollar versus the shekel increases the Company's shekel liabilities in dollar terms (see Item 3.4 of the Board of Directors' Report), thus increasing the Company's payroll and financing expenses.

The Company does not uphold defense agreement for this expense, as it is essentially academic.

Please note that the influence the rates of exchange have on the next quarter's business results shall be determined in accordance with the exchange rates in effect during the quarter in its entirety and at its ending (June 30 2008).

- b. Jet fuel prices continued to rise sharply after the Balance Sheet date.

The price El Al is expected to pay for fuel consumption (after hedging) for April-May is 25 cent per gallon (11%) higher than the price it paid in March 2008 – an estimated additional expense of \$17 million for the months in question.

- c. Regarding additional events occurring after the Balance Sheet date, see Note 10 of the Interim Financial Statements dated March 31 2008.

Professor Israel (Izzy) Borovich

Chairman of the Board

May 30 2008

Haim Romano

CEO

El Al Israel Airlines Limited

Condensed Interim Consolidated Financial Statements

Dated March 31 2008

(Unaudited)

El Al Israel Airlines Ltd.

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Appendix: Condensed Interim Consolidated Financial Statements (Unaudited) in NIS

To:
Board of Directors
El Al Israel Airlines Ltd.
Ben Gurion Airport

Dear Sir/Madam

**Subject: Review of Condensed Unaudited Consolidated Interim Financial Statements
Dated March 31 2008 for the Three Month Period Ending that Date**

At your request we have reviewed the Condensed Consolidated Interim Financial Statements of El Al Israel Airlines Ltd. (hereinafter: "the Company") dated March 31 2008 and the Condensed Interim Consolidated Profit and Loss Report, the report on changes in equity and the consolidated cash flow report, for the three month period ending that date.

Our review was carried out in accordance with procedures set by the Israeli Institute of Certified Public Accountants. Said procedures included, inter alia: reading the Financial Statements in question, reading the minutes of shareholders' meetings and of Board of Directors meetings and of its committees and making inquiries with those responsible for financial and accounting matters.

We were provided with reports made by other accountants concerning the review of Interim Financial Statements of consolidated companies the assets of which constitutes 0.8% of the total assets included in the Condensed Interim Consolidated Balance Sheet dated March 31 2008, and the income of which constitutes some 0.8% of the total income included in the Condensed Consolidated Interim Profit and Loss Report for the three month period ending March 31 2008.

As the review performed is limited in scope and does not constitute an examination in accordance with generally accepted accounting rules, we express no opinion of the condensed interim reports.

In carrying out our review, which included the study of reports prepared by other accountants, nothing came to our attention indicating a need for significant changes in the reports in question, so that they be considered interim Financial Statements prepared in accordance with International Accounting Standard 34 "Interim Period Financial Reporting" and in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) 5730-1970.

We direct your attention to Note 5 regarding legal proceedings against the Company, and to Note 1z, concerning restatement due to changing the accounting treatment of jet fuel hedging.

We hereby consent that this review shall be included in the Company's prospectus, to be published May 2008.

Respectfully,

Brightman Almagor & Co.
Certified Public Accountants

Tel Aviv, May 30 2008.

El Al Israel Airlines Ltd.**Condensed Consolidated Interim Balance Sheet**

	As of March 31		As of
	2008	2007	December 31
	Unaudited		Audited
	Thousands of Dollars U.S.		
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	160,227	137,085	86,670
Short term deposits	115,630	18,000	180,633
Customers	190,241	167,044	143,617
Receivables and debit balances	23,303	26,417	22,254
Derivative financial instruments	43,565	9,381	25,530
Advance expenses	31,885	25,393	25,096
Inventory	17,775	18,927	15,981
	<u>582,626</u>	<u>402,247</u>	<u>499,781</u>
<u>Non-Current Assets</u>			
Long term bank deposits	2,359	1,926	2,207
Investment in included companies	2,324	2,324	2,268
Investment in a different company	1,739	1,855	1,715
Derivative financial instruments	8,116	8,813	7,570
Fixed assets	1,274,243	1,163,810	1,285,752
Intangible assets	5,522	3,376	4,388
	<u>1,294,303</u>	<u>1,182,104</u>	<u>1,303,900</u>
	<u>1,876,929</u>	<u>1,584,351</u>	<u>1,803,681</u>

The accompanying notes are an integral part of the Condensed Interim Financial Statements.

El Al Israel Airlines Ltd.**Condensed Consolidated Interim Balance Sheet**

	As of March 31		As of
	2008	2007	December 31
	Unaudited		Audited
	Thousands of Dollars U.S.		
<u>Liabilities and Equity Capital</u>			
<u>Current Liabilities</u>			
Short term credit and current maturities	66,176	104,681	66,316
Suppliers and service providers	177,971	148,943	167,420
Creditors and credit balances	59,937	48,450	47,185
Provisions	95,496	75,090	89,621
Dividends offered for payment	-	-	3,008
Derivative financial instruments	1,407	22,576	-
Liabilities due to employee benefits	96,544	75,656	87,578
Advance income	258,754	191,528	188,751
	<u>756,285</u>	<u>666,924</u>	<u>649,879</u>
<u>Long Term Liabilities</u>			
Long term loans from financial institutions	705,223	560,100	713,793
Liabilities due to employee benefits	53,694	105,261	54,751
Long term loans from others	327	643	423
Derivative financial instruments	12,184	224	1,415
Long term provisions	16,384	-	-
Deferred taxes	57,125	46,673	64,576
	<u>844,937</u>	<u>712,901</u>	<u>834,958</u>
Total liabilities	<u>1,601,222</u>	<u>1,379,825</u>	<u>1,484,837</u>
<u>Equity Capital</u>			
Stock capital	155,012	131,681	155,012
Premium on shares	28,007	1,140	28,007
Financial reserve from transactions with former controlling parties	237,122	218,498	237,122
Capital reserve due to stock based payment	4,736	3,104	4,464
Capital reserve from the hedging of cash flows	13,577	3,932	8,341
Balance of loss	(162,747)	(153,829)	(114,102)
	<u>275,707</u>	<u>204,526</u>	<u>318,844</u>
	<u>1,876,929</u>	<u>1,584,351</u>	<u>1,803,681</u>

* Restated – see Note 1z

Prof. Israel (Izzy) Borovich
Chairman of the Board

Haim Romano
Chief Executive
Officer

Nissim Malchi
Chief Financial
Officer

Ben Gurion Airport, May 30 2008

Date of approval of the Interim Financial Statements

The accompanying notes are an integral part of the Condensed Interim Financial Statements.

El Al Israel Airlines Ltd.**Condensed Consolidated Profit and Loss Report**

	For the Three Month Period Ending March 31		For the Year Ending December 31
	2008*	2007*	2007*
	Unaudited		Audited
	Thousands of Dollars U.S.		
Operational income	471,466	388,634	1,932,450
Operational expenses	414,774	328,261	1,517,695
Gross Profit	<u>56,692</u>	<u>60,373</u>	<u>414,755</u>
Sales expenses	55,992	42,357	230,886
Management and general expenses	24,915	23,123	91,619
Other operational expenses (income), net	21,374	(5,861)	(2,423)
	<u>102,281</u>	<u>59,619</u>	<u>320,082</u>
Profit (loss) from operations before financing income and expenses	(45,589)	754	94,673
Financing expenses	(23,751)	(13,636)	(56,062)
Financing income	11,016	2,968	19,469
Profit (loss) before taxes on income)	(58,324)	(9,914)	58,080
Tax benefits (taxes on income)	9,668	2,648	(13,586)
Profit (loss) after taxes on income	(48,656)	(7,266)	44,494
The Company's share in the profits of included companies	56	44	332
Profit (loss) for the period	<u>(48,600)</u>	<u>(7,222)</u>	<u>44,826</u>
Basic profit (loss) per share (1 NIS NV) in USD	<u>(0.1)</u>	<u>(0.02)</u>	<u>0.09</u>
Amount of shares used as basis of calculation (thousands) – basic	<u>495,719</u>	<u>400,909</u>	<u>476,289</u>
Diluted profit (loss) per share (1 NIS NV) in USD	<u>(0.1)</u>	<u>(0.02)</u>	<u>0.09</u>
Amount of shares used as basis for calculation (thousands) - diluted	<u>495,719</u>	<u>400,909</u>	<u>495,934</u>

* Restated – see Note 1z

The accompanying notes are an integral part of the Condensed Interim Financial Statements.

El Al Israel Airlines Ltd.

Concise Interim Report of Changes in Equity Capital

	Share Capital	Stock Premium	Capital Reserves from:			Balance of Loss	Total
			Deals with Former Controll- ing Party	Stock Based Payment	Hedging Cash Flows*		
Thousands of Dollars U.S.							
Three months ending March 31 2008 (unaudited):							
Balance as of January 1 2008	155,012	28,007	237,122	4,464	8,341	(114,102)	318,844
Profit from hedging cash flows recognized directly to capital	-	-	-	-	(1) 5,236	-	5,236
Loss for the period	-	-	-	-	-	(48,600)	(48,600)
Total recognized income and expenses	-	-	-	-	5,236	(48,600)	(43,364)
Benefit value of employee option plan	-	-	-	272	-	-	272
Adjustment due to dividends	-	-	-	-	-	(45)	(45)
Balance as of March 31 2008	<u>155,012</u>	<u>28,007</u>	<u>237,122</u>	<u>4,736</u>	<u>13,577</u>	<u>(162,747)</u>	<u>275,707</u>
Three months ending March 31 2008 (unaudited):							
Balance as of January 1 2007	131,536	904	218,498	2,582	4,149	(146,607)	211,062
Profit from hedging cash flows recognized directly to capital	-	-	-	-	(2) (217)	-	(217)
Loss for the period	-	-	-	-	-	(7,222)	(7,222)
Total recognized income and expenses	-	-	-	-	(217)	(7,222)	(7,439)
Exercise of stock options	145	236	-	-	-	-	381
Benefit value of employee option plan	-	-	-	522	-	-	522
Balance as of March 31 2007	<u>131,681</u>	<u>1,140</u>	<u>218,498</u>	<u>3,104</u>	<u>3,932</u>	<u>(153,829)</u>	<u>204,526</u>
Year ending December 31 2007 (audited)							
Balance as of January 1 2007	131,536	904	218,498	2,582	4,149	(146,607)	211,062
Profit from hedging cash flows recognized directly to capital	-	-	-	-	(3) 4,192	-	4,192
Net profit for the year	-	-	-	-	-	44,826	44,826
Total recognized income and expenses	-	-	-	-	4,192	44,826	49,018
Receipts on account of a Government of Israel debt	-	-	18,624	-	-	-	18,624
Exercise of stock options	23,476	27,103	-	-	-	-	50,579
Benefit value of employee option plan	-	-	-	1,882	-	-	1,882
Dividends distributed	-	-	-	-	-	(9,313)	(9,313)
Dividends declared	-	-	-	-	-	(3,008)	(3,008)
Balance as of December 31 2007	<u>155,012</u>	<u>28,007</u>	<u>237,122</u>	<u>4,464</u>	<u>8,341</u>	<u>(114,102)</u>	<u>318,844</u>

* Restated – see Note 1z

(1) Less tax influence to the amount of \$1,966 thousand.

(2) Less tax influence to the amount of \$59 thousand.

(3) Less tax influence to the amount of \$1,090 thousand.

The accompanying notes are an integral part of the Condensed Interim Financial Statements.

El Al Israel Airlines Ltd.**Concise Interim Consolidated Cash Flow Report**

	For the Three Month Period Ending March 31		For the Year Ending December 31
	2008*	2007*	2007*
	Unaudited		Audited
	Thousands of Dollars U.S.		
Cash flows from current activity			
Profit (loss) for the period*	(48,600)	(7,222)	44,826
Adjustments required to present cash flow from current activities – Appendix A	89,757	39,266	210,704
	41,157	32,044	255,530
Deposit of the yield for the exercise of option letters intended for compensations, to cover past liabilities	-	(189)	(24,376)
Cash deriving from current activities, net	41,157	31,855	231,154
Cash flow for investment activity			
Purchase of fixed assets (including total engine renovations and aircraft payment)	(19,334)	(21,203)	(248,558)
Yield from the realization of fixed assets	159	116	504
Investment in intangible assets	(1,251)	-	(644)
Increase (decrease) in short term deposits, net.	65,003	(13,318)	(175,951)
Investment in service provider deposits	-	(26)	(131)
Repayment of service provider deposits	-	-	245
Investment in long term deposits	(32)	(134)	225
Realization of long term deposits	63	67	(398)
Dividends received less a portion of profits of included companies	-	-	12
Return of investment in fixed assets	-	-	3,843
Cashed deriving from (used for) investments, net	44,608	(34,498)	(420,853)
Cash flows used for financing activities			
Yield from the exercise of stock options	-	196	31,820
Receiving long term loans from financial institutions	-	-	219,420
Repaying long term loans from financial institutions	(8,505)	(5,874)	(101,267)
Receiving other long term loans	-	-	98
Repaying other long term loans	(109)	(614)	(2,309)
Payment of loan raising expenses	-	-	(7,570)
Decrease in short term credit, net	(540)	(138)	(668)
Dividends paid	(3,054)	-	(9,313)
Cashed deriving from (used for) financing, net	(12,208)	(6,430)	130,211
Increase (decrease) in cash and cash equivalents, net	73,557	(9,073)	(59,488)
Cash balance and cash equivalents for the beginning of the period	86,670	146,158	146,158
Cash balance and cash equivalents for the end of the period	160,227	137,085	86,670

* Restated – see Note 1z

The accompanying notes are an integral part of the Condensed Interim Financial Statements.

El Al Israel Airlines Ltd.

Concise Interim Consolidated Cash Flow Report

For the Three Month Period Ending March 31		For the Year Ending December 31
2008*	2007*	2007*
Unaudited		Audited
Thousands of Dollars U.S.		

Appendix A – Adjustments Needed to Present Cash Flows from Current Activity

Income and Expenses not Involved in Cash Flow:

Depreciation and amortization (including reductions, components removed from use and perishable equipment)	31,260	33,990	135,777
Value adjustment of long term deposits	(207)	(23)	(198)
Portion of the profits of included companies	(56)	(44)	-
Deferred taxes	(10,120)	(5,933)	7,790
Increase in liabilities due to employee benefits and provisions	31,753	2,224	22,347
Capital losses (profits) from the realization of fixed assets, net	(108)	1,621	1,440
Erosion of other long term loans	(3)	(6)	(20)
Benefit value of employee option plan	272	522	1,882
Loss (profit) from the adjustment of the fair value of derivatives via profit and loss*	1,249	(11,614)	(15,768)

Changes in Assets and Liabilities Items

Increase in customers	(46,624)	(34,500)	(11,073)
Decrease (increase) in receivables and debit balances	(1,049)	(2,067)	2,100
Increase in advance expenses	(6,789)	(6,914)	(6,617)
Decrease (increase) in inventory	(1,794)	(1,737)	1,209
Increase in suppliers and service providers	10,551	3,953	22,430
Increase in creditors and credit balances	11,419	10,611	2,999
Increase in advance income	70,003	49,183	46,406
	<u>89,757</u>	<u>39,266</u>	<u>210,704</u>

Appendix B – Non-Cash Transactions

Government deposits in employee compensation fund	<u>-</u>	<u>-</u>	<u>18,624</u>
Dividends declared and paid after the balance sheet date	<u>-</u>	<u>-</u>	<u>(3,008)</u>
Exercise of option letters presented as liability	<u>-</u>	<u>185</u>	<u>18,759</u>

Appendix C – Cash Interest and Tax Payments

Interest payments	<u>11,501</u>	<u>8,729</u>	<u>43,367</u>
Interest receipts	<u>(5,028)</u>	<u>(992)</u>	<u>(4,890)</u>
Tax payments – advances due to surplus expenses	<u>10</u>	<u>171</u>	<u>14</u>
Dividend receipts	<u>-</u>	<u>-</u>	<u>345</u>

* Restated – see Note 1z

The accompanying notes are an integral part of the Condensed Interim Financial Statements.

Note 1 – Principles of Accounting Policy

a. Definitions

The Company	-	El Al Israel Airlines Ltd.
The Group	-	The Company and its held companies.
Related Parties	-	As defined in IAS 24.
Interested Parties	-	As defined in the Securities Regulations (Preparation of Yearly Financial Statements), 5753-1993
Controlling Parties	-	As defined in the Securities Law, 5728-1968, and in its regulations.
Index	-	The Consumer Price Index, as published by the Central Bureau of Statistics.
Dollar	-	Dollar U.S.
Consolidated Companies	-	Companies in which the Company holds a controlling interest (as defined in IAS 27), directly or indirectly, the Financial Statements of which are fully consolidated with the Company's statements,
Included Companies-		Companies over which the Company has significant influence, and which the Company's investments thereof, direct or indirect, are included in the Financial Statements at book value.
Held Companies	-	Held companies and Included companies.
Other Company	-	A company held by the Company over which the Company has neither control nor significant influence.

b. Implementation of International Financial Reporting Standards (IFRS)

(1) Statement on the Implementation of International Financial Reporting Standards

The Group's Condensed Interim Consolidated Financial Statements (hereinafter – "the **Interim Statements**") were prepared in accordance with International Financial Reporting Standards (IFRS) and clarifications thereof published by the International Accounting Standards Board (IASB), as required for the preparation of interim Financial Statements in accordance with IAS 34, Interim Financial Reporting (hereinafter – "**IAS 34**"). The principles of accounting policy detailed below were consistently implemented for the entire reported period presented in these Condensed Interim Consolidated Financial Statements as well as in the preparation of the opening Balance Sheet in accordance with the IFRS.

(2) **First Adoption of International Financial Reporting Standards**

In accordance with the provisions of Accounting Standard 29 of the Israeli Accounting Standards Board, Adoption of International Financial Reporting Standards (hereinafter – "**Standard 29**"), starting January 1 2008 the Group has implemented the International Financial Reporting Standards and clarifications thereof as published by the International Accounting Standards Board (IASB).

In light of the above, these Interim Statements dated March 31 2008 for the three month period ending said date have been prepared in accordance with the IFRS and clarifications thereof as published by the IASB, as required for the purpose of preparing condensed Financial Statements for interim periods, in accordance with IAS 43.

These Interim Statements saw the implementation of the provisions of IFRS 1, First Time Adoption of International Financial Reporting Standards (hereinafter - "**IFRS 1**"), which determined the provisions of the shift to first-time reporting in accordance with the IFRS. In accordance with IFRS 1, the date of the Group's shift to IFRS reporting as defined in IFRS 1 was January 1 2007 (hereinafter – "**the Transfer Date**"), and the Balance Sheet for said date is the Opening Balance Sheet as defined in the IFRS (hereinafter – "**the Opening Balance Sheet**").

The Company implemented the IFRS standards published as of the preparation of the interim consolidated Financial Statements, and which are expected to be in effect until December 31 2008, retroactively as regards the entire presented reported period. Regarding the reliefs the Group selected in implementing the transfer provisions in accordance with the provisions of IFRS 1, see Note 9g below.

Prior to the adoption of the IFRS, the Group had prepared its Financial Statements in accordance with generally accepted Israeli accounting rules. The Company's last yearly Financial Statements prepared in accordance with generally accepted Israeli accounting rules were prepared for December 31 2007 and for the year ending said date. The comparison numbers for the period in question were presented anew in these Financial Statements in accordance with the IFRS.

See Note 9 regarding the material differences between IFRS reporting and reporting in accordance with generally accepted Israeli Accounting rules, as far as is relevant to the Group.

- (3) The Interim Financial Statements have been prepared in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, with the exception of regulations not permitting the implementation of the IFRS, or that permitted according to them.
- (4) These condensed reports must be studied in connection with the Company's Annual Financial Statements dated December 31 2007 and for the year ending said date and accompanying notes, so long as data contained thereof does not contradict Financial Statements that would have been included in accordance with the IFRS.

c. **Basis for the Preparation of the Financial Statements**

These Financial Statements have been prepared on the basis of historic cost, with the exception of:

- The following assets and liabilities are measured at fair value: financial instruments measured at fair value via profit and loss, derivative financial instruments.

- Non-current assets designated for realization are presented at book value or at fair value less sales costs, whichever is lower.
- Inventory, which is presented at cost or at net realization value, whichever is lower.
- Fixed assets and intangible assets are presented at cost less accrued amortization or at their recoverable sum, whichever is lower.
- Liabilities due to employee benefits, as detailed in Note 1v.

d. Foreign Currency

(1) Operating Currency and Presented Currency

The Financial Statements of each member of the Group are prepared using the currency of the primary economic environment in which they operate (hereinafter – "**the Operating Currency**"). For the purpose of consolidating the Financial Statements, the results and financial status of each of the Group members is expressed in dollars, which is the Company's operating currency. The Company's Consolidated Financial Statements are presented in dollars. As regards exchange rates and changes thereof over the course of the reported period, see Note 1v.

A translation of the Financial Statement into shekels in accordance with IAS 21 provisions is included in the Appendix to the Financial Statements.

(2) Translation of Transactions Not in the Operating Currency

In preparing the Financial Statements of each of the Group members, transactions carried out in currencies different than said company's Operating Currency (hereinafter – "**Foreign Currency**"), are listed at the exchange rates in effect at the time of the transactions. On each Balance Sheet date, monetary items listed in foreign currency are translated at the exchange rates in effect on that date; non-monetary items measured at fair value listed in foreign currency are translated according to exchange rates in effect when fair value was determined; non-monetary items measured at historic cost are translated at the exchange rates in effect at the time the transaction regarding the non-monetary item took place.

(3) Listing of Exchange Rate Differentials

Exchange rate differentials are recognized in the Profit and Loss Reports for the period in which they arose.

e. Consolidated Financial Statements

The Group's Consolidated Financial Statements include Financial Statements from the Company and from entities controlled by the Company, directly or indirectly. Control exists when the Company has the power to control the financial and operational policy of a held company for the purpose of receiving benefit from its activities.

For purposes of consolidation, all inter-company transactions, balances, income and expenses are fully cancelled.

f. Investment in Included Companies

An included company is an entity over which the Company holds material influence, and is not a consolidated company. Material influence is the power to participate in decisions regarding the included company's financial and operational policy, but cannot be considered control or joint control of said policy.

The results, assets and liabilities of included companies are included in the Company's Consolidated Financial Statements using the book value method.

Profits or losses created by transactions carried out between the Company or a consolidated company and a Group included company, are cancelled off according to the Group's portion of the rights to the included company in question.

g. Cash and Cash Equivalents

Cash and cash equivalents include bank deposits available for immediate withdrawal as well as fixed-term deposits with no limitation on use, with a redemption date, as of the investment thereof, no greater than three months.

h. Inventory

Inventory is presented at cost or at net realization value, whichever is lower. Inventory costs include all purchasing costs, as well as other costs arising from bringing inventory to its present location and state.

Net realization value represents the sales price estimate over the regular course of business less the completion cost estimate and the estimate of costs required to make the sale.

Cost is determined using the moving weighed average method,

i. Fixed Assets

A fixed asset is a tangible item held for use in providing services or for rental to others expected to make use of it for more than a one period.

The Company presents its fixed asset items as per the cost model, as follows:

Fixed asset items are presented in the Balance Sheet at cost less accrued depreciation, and less losses from accrued deterioration, if such exist. Cost includes the asset's purchase cost as well as costs directly attributable to bringing the asset to the location and state required for their usage in the manner intended by management. The cost of fit assets also includes credit costs requiring capitalization.

Amortization of fixed assets is done separately for each depreciable fixed item component with a significant cost relative to the item's total cost. The amortization is performed in a straight line across the entire expected useful lifespan of the item's components from the date on which the asset became ready for its intended use, taking into account the expected residual value at the end of the useful lifespan,

The following are the depreciation rates of the Company's aircraft relative to cost (after deducting residual value):

Aircraft Fleet	Annual Depreciation Rate
777	4.8%
747-400	5.7%
747-200	4.7%
767	8.0%
757	4.8%
737	4.2%

Engine general repairs ("overalls") are attributed to the Balance Sheet as assets, and are amortized across the expected financial benefit period for such repairs (according to an estimate of projected engine operating hours).

An asset's residual values, depreciation method and useful lifespan are reviewed by the Company's management at the end of each fiscal year. Changes are treated as assessment changes using a "here onward" method.

Financially leased assets are amortized across their expected useful lifespan on the same basis as owned assets or across the leasing period, if shorter.

In the matter of the implementation of IAS concerning asset deterioration – see Note 1k below.

Profit or loss created as a result of the sale or removal from use of an asset is determined based on the difference between receipts from its sale and the asset's book value, and is attributed to profit and loss.

The cost of accessories and spare parts included in fixed assets is determined using a moving weighed average method.

Accessories and spare parts attributed to a specific fleet are amortized according to the balance of said fleet's average life span. Accessories and parts not attributed to a specific fleet are amortized at a fixed yearly rate,

Non-moving or slow-moving accessories and spare parts are included at reduced values as estimated by management.

j. Intangible Assets

Usage rights to security equipment are included at their cost to the Company, and are amortized on a straight line basis in accordance with the estimated economic usage period, subject to a depreciation test. The life span estimate and the amortization method are examined at the end of each reported year, where the influence the changes have on the estimate is treated in a "here onward" manner.

Software is included at cost to the Company and is amortized on the straight line method in accordance with the estimated economic usage period.

k. Depreciation of Tangible and Intangible Assets

On each Balance Sheet date, the Group examines the book value of its tangible and intangible assets so as to determine whether any signs exist that indicate the existence of depreciation in said assets. In the event such indications exist, a recoverable sum is estimated for the asset so as to determine the amount of depreciation loss created, if any. In the event that the recoverable sum of a single asset cannot be estimated, the Group estimates the recoverable sum of the cash-yielding unit to which the asset belongs.

A recoverable sum is the sales price of the asset less sales cost or its usage value, whichever is higher. In assessing the usage value, future cash flow estimates are deducted to their current value at a pre-tax discount rate reflecting current market estimates regarding the money's time value and the risks specific to the asset on the basis of which the future cash flow estimate had not been adjusted.

When an asset's recoverable sum (or that of a cash-yielding unit) is assessed at lower than its book value, the asset's book value (or that of the cash-yielding unit) is reduced to its recoverable sum. Depreciation losses are immediately recognized as expenses in the Profit and Loss Report.

Company management believes that the recoverable sums of the aircraft relative to their amortized cost after grouping the air fleet should be examined, and that it is incorrect to examine the recoverable sum of each aircraft relative to its amortized cost individually.

After the Company carried out the air fleet grouping described above, it discovered that as regards each group of aircraft, the recoverable sum was greater than the amortized cost of said group of aircraft on the date in question. Accordingly, no provision for the depreciation of aircraft assets was made in these Financial Statements.

1. Financial Assets

(1) General

Financial assets are recognized in the Group's Balance Sheet when the Group becomes a party of the instrument's contractual terms.

Investments in financial assets are first recognized at cost which includes transaction costs, with the exception of those financial assets classified under fair value in profit and loss, the ancillary costs of their purchase being attributed to the Profit and Loss Report.

The Group's financial assets are classified to the categories detailed below. Classification to these categories depends on the nature and holding purpose of the held financial asset and is determined on the financial asset's initial recognition date:

- Financial assets at fair value via profit and loss;
- Loans and receivables

(2) Financial Assets at Fair Value via Profit and Loss

Financial assets are classified as "financial assets at fair value via profit and loss" when said assets are held for purposes of trade or when intended as financial assets at fair value via profit and loss.

A financial asset is classified as held for purposes of trade if it is an undesignated derivative and is effective as a hedging instrument.

The Group's financial assets included in this group include derivatives not intended for use as hedging instruments, or which are ineffective as hedging instruments. These derivatives include derivatives on jet fuel prices, on interest rates and on exchange rates not designated as hedging instruments.

Financial assets at fair value via profit and loss are presented at fair value. All profits or losses deriving from changes in fair value, including those deriving from changes in rates of exchange, are recognized in the Profit and Loss Report for the period in which the change occurred.

(3) Loans and Receivables

The Group's financial assets in this group include customers, deposits and other receivables with regular or determinable payments without a quote on an active market. Loans and receivables are measured at amortized cost using the effective interest method less depreciation, if any. Interest income is recognized using the effective interest method, except on the basis of short term customers and receivables where the interest amounts to be recognized are immaterial.

(4) Depreciation of Financial Assets

Financial assets, with the exception of those classified as financial assets at fair value via profit and loss, are examined each Balance Sheet date in order to discover the existence of signs of depreciation. Such depreciation comes into effect when objective evidence exists that as a result of a single event or more occurring after the initial recognition of the financial assets, the expected future cash flows of the investment were adversely affected.

Signs of depreciation may include:

- Significant financial difficulties on behalf of the debtor;
- Failure to meet regular fund payments or interest;
- The probability that the debtor may enter bankruptcy or debt restructuring.

As for financial assets presented at amortized cost, depreciation is recognized at the difference between the financial asset's book value and the current value of future cash flows expected from it, capitalized at its original effective interest rate.

If the amount of loss from the depreciation of a financial asset in a sequential period is small, and said decrease is objectively connected to an event occurring after the depreciation was recognized, in such a case the depreciation loss recognized in the past, in whole or in part, via the Profit and Loss Report is cancelled. Such a cancellation is limited in sum, in such a manner that the book value of the investment in the asset on the date on which the depreciation loss is cancelled shall be no greater than the amortized cost of the asset that would have existed on said date if the depreciation had not been recognized in the past.

As for customer, their book value is amortized as needed using a provision account for doubtful debts. The provision is calculated on a specific basis. With non-collectable customer debts, the write-off is carried out against the provision account. Collection in sequential periods of sums written off in the past is redeemed against the provision account. Changes in the book value of the provision account are recognized in the Profit and Loss Report.

m. Financial Liabilities and Capital Instruments Issued by the Group

(1) Classification as Financial Liability or Capital Instrument

Non-derivative financial instruments are classified as financial liabilities or as capital instruments, according to the nature of the contractual arrangement at their basis.

A capital instrument is any contract that indicates residual rights to the Group's assets after deducting all its liabilities. Capital instruments issued by the Company are listed by the yield of their issue, less expenses directly related to the issuing of said instruments.

The Group's financial liabilities are presented and measured according to the following classification:

- Financial liabilities at fair value via profit and loss.
- Other financial liabilities

(2) Options for the Purchase of Company Shares

Receipts for the issue of options for the purchase of Company shares, granting their holders the right to purchase a fixed number of regular shares in return for a variable amount of cash, are presented under its current liabilities, and are classified as liabilities at fair value via profit and loss. As the Company has issued options the exercise money of which is not in the Company's operating currency (the exercise money is in NIS and is CPI-linked), the exercise sum is considered a variable sum.

(3) Financial Liabilities at Fair Value via Profit and Loss

The Group's financial liabilities included in this category include derivatives on interest rates and on rates of exchange not designated as hedging instruments, as well as options for the purchase of Company shares as detailed above.

Financial liabilities at fair value via profit and loss are presented at fair value. Any profit or loss deriving from changes in fair value is recognized in the Profit and Loss Report. Transaction costs are attributed at first recognition to the Profit and Loss Report.

(4) Other Financial Liabilities

Other financial liabilities include credit and loans, suppliers and other creditors. These liabilities are first recognized at fair value after the deduction of transaction costs, after the initial recognition date, other financial liabilities are measured at reduced cost using the effective interest method.

n. Derivative Financial Instruments and Hedge Accounting

(1) General

The Company makes use of a variety of derivative financial instruments in order to manage exposure to changing prices of gas fuel, to interest rate changes and to foreign currency rates.

Derivatives are first recognized upon commitment and on every following Balance Sheet date at fair value. As a rule, changes in the fair value of derivative financial instruments are attributed to the Profit and Loss Report. The timing of the Profit and Loss Report recognition of changes in the fair value of derivative financial instruments intended for hedging purposes, when such hedging is effective and meets the conditions for determining hedging hedge accountings, is contingent on the manner and type of hedging, as detailed below.

The Balance Sheet classification of derivative financial instruments is determined according to the contractual time period of the derivative financial instrument. If the derivatives' contractual balance of time is greater than 12 months, the derivative shall

be presented as a non-current item on the balance sheet, and if the balance of time is no greater than 12 months the derivative shall be considered a current item.

(2) Hedge Accounting

The Company designates certain derivative financial instruments for hedging purposes, this due to exposure to jet fuel prices and interest rates. The hedging items are intended for the hedging of cash flows.

Hedging ratios are documented by the Company when the hedging agreement comes into effect. Said documentation includes identifying the hedging instrument, the hedged item, the hedged risk, the implemented hedging strategy, as well as examining whether the strategy fits the Group's general policy for each type of hedging. In addition, starting at the beginning of the hedging ratios and throughout their existence, the Company documents the effectiveness of the hedging instrument in offsetting the exposure to changes in cash flows due to the hedged risk on the hedged item.

The Company implements hedge accounting of cash flows for jet fuel purchases at rates set by the entire expected future consumption for a period of up to two years from the Balance Sheet date. For these purposes, the Company has entered several contracts of different sorts so as to minimize its exposure from increasing fuel costs.

The Company implements hedge accounting of cash flows for the purpose of minimizing exposure due to variable interest rates on the Company's loans. For these purposes the Company has entered several contracts, the purpose of which is to fix interest rates. The interest hedging instruments used by the Company match the payoff tables of the loans, for the referred periods, they are intended to protect.

The effective portion of the changes in the values of financial instruments intended for hedging cash flows is recognized immediately in equity capital under "capital reserve based in cash flow hedging" and the ineffective portion is recognized immediately in the Profit and Loss Report.

The cash flow hedge accounting is stopped when the hedging instrument expires, is sold or realized or when the hedging ratios no longer meet the threshold for hedging. After the hedge accounting is concluded, the sums attributed to equity are attributed to profit and loss instead, and the hedged item or the hedged predicted transaction are listed under profit and loss.

o. Basis of Recognition of Income and Attributing Commissions to Agents.

- (1)** Income from the sale of plane tickets is included in advance income in the framework of current liabilities, until service is provided or two years from their sale, whichever comes first.

Income from passenger transport includes income in which the service was provided by the Company, even if the ticket sales were carried out by other airlines.

In addition, income from passenger transport also includes income deriving from Code Share Agreement collaboration agreements with other airlines. In such cases, where service is provided by the other airlines, while the sale is carried out by the Company, prices are presented in net values.

- (2) Income from cargo transport is attributed as income on the Profit and Loss Report when the service is provided.
- (3) Agent commissions attributed to income yet to be recognized are included in the Financial Statements under "Advance Expenses", and shall be attributed as sales expenses in the Profit and Loss Report, concurrent with the recognition of income.
- (4) Interest revenue is accrued on a timely basis considering the redeemable reserve and using the effective interest method.

p. Engine Maintenance and Repair

Maintenance and repair expenses not general ("overall") repairs as noted in Note 1a above are attributed to the Profit and Loss Report upon the actual execution of the maintenance or repair works.

In case were the Company has entered agreements of an insurance nature, the Company lists expenses as defined in the insurance agreements, with repair costs being at the insurer's expense.

q. Company Services Security Expenses

The Company's participation in government expenses in securing the Company's services is attributed to the Profit and Loss Report upon creation, according to the Company's share of the expenses.

r. Leases

(1) General

Lease arrangements are classified as financing leases when the terms of the contract pass on all significant risks and returns deriving from ownership to the lessee. The remaining leases are classified as operational leases.

- (2) Rental fee expenses due to operational leases (especially aircraft charters) are recognized on the straight line basis across the lease period. In lease arrangements in which leasing fees are not paid at the beginning of the lease period, or reduced leasing fees are paid, and additional benefits are received from the lessor, the Company recognizes expenses on a straight line basis, across the lease period.

s. Provisions

(1) General

Provisions are recognized when Group possesses a legal or implied liability as a result of past events, based on which use of reliably estimated economic resources in order to remove the liability is expected.

The sum identified as a provision reflects the Company's management's best estimate regarding the sum required to settle the present liability as of the Balance Sheet date, while taking into account the risks and uncertainties involved in the liability. When the provision is measured using projected cash flows so as to settle the liability, the provisions book value is the current value of projected cash flows. The interest rate

used by the Company to capitalize its provision for the investigation by the U.S. Antitrust Division (as described in Note 10c) is 3.7%.

When the entire sum or a portion thereof is required to settle the present liability is expected to be returned by a third party, the Group recognizes the asset, based on the return, to the level of the provision recognized, only after it is virtually certain that the compensation will be received and that it may be reliably estimated.

(2) Liabilities Resulting from Passenger Club Plans

This provision has been calculated according to an estimate of effective cost to the Company as a result of making use of the benefits granted according to the plans in question, employing an estimate of the probability of usage. The effective cost is based on an estimate of the expected relative weight, in the management's opinion, of the marginal expenses the Company may bear as a result and of the loss of alternative revenues deriving from turning away paying passengers, in realizing the benefits in question.

As for the publication of IFRIC 46 – see Note 1y2e below.

(3) Lawsuits

The Statements include the appropriate provisions for legal claims against Group members, which the Group's management believes will not be dismissed or withdrawn, this despite the fact that the suits in question are denied by the Group members.

Treatment of these claims is in accordance with IAS 37. According to these directives, resulting from claims with a high probability of realization (over 50%), provisions are included which, in the Group's management's opinion, based on legal counsel, are appropriate for each individual case.

t. Stock-Based Payments

Stock-based employee payments, defrayed by the Group's capital instruments, are measured at fair value upon granting. The Company measures the fair value of the capital instruments granted through the use of the Black and Scholes Model as they are granted. When the capital instruments granted do not mature until the employees in question complete a predefined term of service, the Company recognizes the stock-based payment arrangement in the Financial Statements across the maturing period against an increase in equity capital, under "capital reserve for stock based payment." On each Balance Sheet date, the Company estimates the number of capital instruments expected to mature. A change in estimates regarding past periods is recognized in the Profit and Loss Report across the balance of the maturation period.

u. Taxes on Income

(1) General

Tax expenses (income) on income include the sum of current taxes, as well as the sum of changes in deferred tax balances, with the exception of deferred taxes deriving from transactions attributed directly to equity capital.

(2) Current Taxes

Current Taxes are calculated based on the taxable income of the Company and consolidated companies throughout the reported period. Taxable income differs from profit before taxes on income due to the inclusion or failure to include income and expense items taxable or deductible in various reported periods, or which are not taxable or deductible. Assets and liabilities for current taxes were calculated based in tax rates and tax laws passed or the legislation of which was in effect completed as of the Balance Sheet date.

(3) Deferred Taxes

The Group members create deferred taxes for temporary differences between the value of assets and liabilities for tax purposes and their value in the Financial Statements. The balances of deferred taxes (asset or liability) are calculated according to the tax rates expected upon their realization, based upon tax rates and tax laws passed of the legislation of which had in effect been completed as of the Balance Sheet date. Deferred tax liabilities are generally recognized due to all the temporary differences between the value for tax purposes or assets and liabilities and their values in the Financial Statements. Deferred tax assets are recognized based on all the temporary differences deductible up to the sum equal to the expected taxable income against which the deductible temporary difference may be utilized.

In calculating deferred taxes, taxes that would had applied in the event of realization of investments in held companies are not taken into account, as the Company intends to keep and develop these investments. Likewise, taxes deferred due to profit distribution in these companies are not taken into account, as the dividends are not taxable.

Deferred tax assets and liabilities are presented as offset when an enforceable legal right exists to offset tax assets against tax liabilities, and when they refer to taxes on income placed by the same tax authority, and the Group intends to defray the tax assets and liabilities on a net basis. The Company and a number of consolidated companies are assessed for income tax jointly, and therefore those companies' deferred tax assets and deferred tax liabilities are presented as offset.

v. Employee Benefits

(1) Benefits for after the Conclusion of the Transaction

The Group's benefits for after the completion of the transaction include: pensions, severance pay liability, adjustment bonuses for senior employees, sick day repayment and certain benefits for Company retirees. The Company's benefits for after the completion of the transaction are in part defined as contribution plans and in part defined as benefit plans. Expenses resulting from the Company's liability to deposit funds as part of a defined contribution plan are attributed to the Profit and Loss Report on the date the work services for which the Company is liable to make the contribution are supplied.

Defined benefit plan expenses are attributed to the Profit and Loss Report according to the Projected Unit Credit Method, using actuary estimates made each Balance Sheet date. The current value of the Company's defined benefit plan liability is determined by capitalizing future cash flows expected as a result of the plan in market yield on government bonds, listed in the currency in which the plan's benefits

will be paid, possessing redemption periods nearly identical to the plan's projected defrayal dates.

Actuary profits and losses greater than 10% of the current value of liabilities due to defined benefit plans or the fair value of the plan's assets for the beginning of the period, whichever is higher, amortized across the balance of the average expected work period of the employees participating in the plan.

The Company's defined benefit plan liability presented in the Company's Balance Sheet includes the current value of the liability for a defined benefit, with the addition of actuary profits (less losses) not yet recognized, less the fair value of the plan's assets.

(2) Other Long Term Employee Benefits

Other long term employee benefits are benefits that are expected to be utilized or are payable for a period greater than 12 months from the end of the period in which the benefit-granting service was provided.

Other employee benefits at the Company included a portion of the liabilities due to vacations and senior bonuses. These benefits are attributed to the Profit and Loss Report, in accordance with the Projected Unit Credit Method, using actuary estimates performed each Balance Sheet date. The current value of the Company's liabilities due to said investments is determined by capitalizing future cash flows expected due to the plan in market returns of government bonds, quoted in the currency in which the benefits will be paid, and with redemption periods nearly identical to their projected defrayal dates.

Actuary profits and losses due to other long term employee benefits are attributed to the Profit and Loss Report upon creation.

(3) Short Term Employee Benefits

Short term employee benefits are benefits expected to be utilized or paid within a period no greater than 12 months from the ending of the period in which the benefit-granting service was provided.

Short term employee benefits at the Company included the Company's liabilities due to payroll, bonuses and a portion of the vacation provision. These benefits are attributed to the Profit and Loss Report upon creation. The benefits are measured on a non-capitalized basis. The difference between the level of short term benefits to which an employee is entitled and the sum paid is recognized as a liability.

(4) Early Retirement Plans

The Company's liability due to early retirement plans are attributed to the Profit and Loss Report as the Company is committed to a formal retirement plan, which includes at least the location, position and estimated number of employees to be dismissed, the benefits to which the dismissed employees are entitled as well as the date on which the plan will be implemented. In addition, the time period for the completion of the implementation shall be such that significant changes in the plan are unlikely. The sum of benefits is determined using a government bond capitalization rate.

w. Profit per Share

The Company calculates its basic profit sums per share as regards profit or loss, attributed to the Company's shareholder by distribution of profit or loss, attributed to the Company's regular shareholders, by a weight average of the number of regular shares in circulation over the course of the reported period. In order to calculate the diluted profit per share, the Company adjusts the profit or loss attributed to the regular shareholders and the weighed average of the number of shares in circulation, as a result of the influences of all the diluting potential shares.

x. Exchange Rates and Linkage Base

- (1) Balances in foreign currency, or those linked to them, are included in the Financial Statements at the representative rates of exchange published by the Bank of Israel in effect as of the balance sheet.
- (2) CPI-linked balances are presented according to the last known index on the Balance Sheet date.
- (3) The following is data on the exchange rates of the dollar and on the Israeli Consumer Price Index:

	March 31 2008	March 31 2007	December 31 2007
CPI – in points	191.4	184.5	191.2
Dollar rate – in NIS	3.553	4.155	3.846
Dollar rate – in euro	0.633	0.751	0.680
Rate of change in percentages:			
	For the Three Month Period Ending March 31 2008	For the Three Month Period Ending March 31 2007	For the Year Ending December 31 2007
Consumer Price Index	3.7	(0.2)	3.4
Dollar rate vs. the NIS	(7.6)	(1.7)	(9.0)
Dollar rate vs. the euro	(6.9)	(1.1)	(10.4)

y. New Financial Reporting Standards and Published Clarifications

- (1) The following is information concerning standards, revisions to standards and clarifications that have been published and have yet to come into effect, which have been adopted early by the Group, and may be relevant:
 - (a) **IAS 1 (Revised) "Presentation of Financial Statements"**

This standard defines the required presentation in the Financial Statements, and details a general framework for a structure of a financial statement and minimal content, to be included as part of the report. Under the revision to this statements, several changes were made to the existing presentation format of the Financial Statements, and the presentation and disclosure requirements for the Financial Statements were expanded, including the

presentation of an additional report as part of the Financial Statements named "Comprehensive Profit Report", and the addition of a Balance Sheet for the beginning of the earliest period presented in the Financial Statements in cases of changes in accounting policy by way of retroactive implementation, in cases of restatement and in cases of reclassification.

The standard shall apply to reported periods starting January 1 2009. The standard allows early adoption.

At this stage, Company management cannot estimate the influence of implementing this standard on the Financial Statements.

(b) IAS 23 (Revised) "Borrowing Costs"

This standard defines the accounting treatment of borrowing costs. As part of the revision of this standard, the possibility of immediate recognition of credit costs referring to assets with significant preparation or establishment periods in the Profit and Loss Report has been cancelled. Said credit costs will be capitalized to the cost of the asset. The standard shall apply to borrowing costs referring to fit assets the capitalization date of which is in effect starting January 1 2009 or any earlier date, as set by the Company. This standard allows early implementation.

Company management estimates that implementing this standard shall have no influence on the Group's Financial Statements.

(c) IFRS 8, Operating Segments

This standard, which replaces IAS 13, specifies how a corporation is to report information by segments in its annual Financial Statements. Inter alia, the standard states that the Company's segment-based reporting shall be based on information used by Company management to estimate segment performance, and to reach decisions on allocation or resources to the various operating segments. This standard shall apply to annual reporting periods starting January 1 2009, retroactively matching the comparison numbers to previous reporting periods. The standard allows early implementation.

(d) IFRS 3 (Revised) "Business Combinations"

The new standard sets the accounting treatment rules as regards business combinations. Inter alia, the law determines yield measurement tools contingent on business combinations, to be measured as derivative financial instruments. Transaction costs directly related to the business combination shall be attributed to the Profit and Loss Report upon occurrence. Minority rights shall be measured upon combining the businesses according to their share of the fair value of the assets, including the reputation, liabilities and contingent liabilities of the purchased entity, or according to the portion of the net fair value of assets in question, with the exception of their portion of the reputation.

In business combinations in which control is achieved after several purchases (purchase in stages), the purchased company's assets, liabilities and contingent liabilities shall be measured at fair value as of the date control was achieved, with the difference attributed to the Profit and Loss Report.

The standard shall apply to business combinations occurring starting January 1 2010 and later. Early adoption is possible, under the condition that it be combined with the early adoption of IAS 27 (Revised).

At this stage, Group management cannot estimate the influence implementing this standard would have on financial status and the results of its activities.

Standards, standard revisions and clarifications which have been published but have yet to have taken effect not adopted by the Group via early adoption, which may be relevant to the Company (Continue)

(e) IFRIC 13, Customer Trust Plans

This clarification states that flight ticket sales deals, in which the Company grants its customers frequent flier club points, to be realized as flight tickets in the future, shall be considered multi-component transactions, and payment received from the customer shall be allocated between its various components based on the fair value of the bonus credits. The yield attributed to the bonus shall be recognized as income when the bonus credits are redeemed and the Company's obligation to provide the services comes into effect.

Clarification directives shall apply to annual reporting periods starting January 1 2009. Early implementation is a possibility.

At this stage, Group management is incapable of estimating the influence of implementing this clarification will have on its financial status and the results of its activities.

(f) IASB 2008 published a series of revisions to its international standards in May 2008, as part of the Annual Improvements Project.

As part of the revisions, corrections were made to several of the statements, changing accounting policy as regards presentation, recognition and measurement.

In addition, revisions were made to terminology with at best minimal influence on the Financial Statements. The Company is examining the possible implications the above standards will have on its Financial Statements. Most of the revisions will come into effect in the years beginning January 1 2009.

(g) In May 2008, IASB published revisions of IFRS 1 and IAS 27 – Consolidated Financial Statements.

As part of the above revisions, first-time IFRS adopters may employ "Calculated Cost" to achieve holdings in held companies in the Company's separate Financial Statements on the date it shifts to international standards. In addition, the requirement regarding dividends received as a result of investments presented at cost, that these dividends always be presented in the Profit and Loss Report, was changed.

The changes in question shall apply to Financial Statements starting January 1 2009. Early implementation is a possibility.

The Company is examining the possible implications of the above revisions.

- (2) The following specifies the standards, standard revisions and clarifications which have been published but have yet to take effect, which are unlikely to be relevant to the Group:
- (a) IAS 27 (Revised) – Consolidated and Separate Financial Statements;
 - (b) IFRIC 2 Revision – Stock Based Payment – maturation conditions and cancellations.

z. Restatement:

The March 31 2008 Financial Statements for the three month period ending that date, and the March 31 2007 Financial Statements for the three month period ending that date, were presented anew, this due to changes in the accounting treatment of several jet fuel hedging agreements performed by the Company, causing these transactions to be treated by instruments not intended to be used for defense agreements.

The following detail the restatement in question:

1. Consolidated Balance Sheets:

	For March 31 2008			For March 31 2007		
	Before Restate-ment	Restate-ment Influence	After Restate-ment	Before Restate-ment	Restate-ment Influence	After Restate-ment
	Thousands of Dollars			Thousands of Dollars		
Capital reserve resulting from hedging cash flows	<u>28,559</u>	<u>(14,982)</u>	<u>13,577</u>	<u>9,996</u>	<u>(6,064)</u>	<u>3,932</u>
Balance of loss	<u>(177,729)</u>	<u>14,982</u>	<u>(162,747)</u>	<u>(159,893)</u>	<u>6,064</u>	<u>(153,829)</u>

	For December 31 2008		
	Before Restate-ment	Restate-ment Influence	After Restate-ment
	Thousands of Dollars		
Capital reserve resulting from hedging cash flows	<u>21,977</u>	<u>(13,636)</u>	<u>8,341</u>
Balance of loss	<u>(127,738)</u>	<u>13,363</u>	<u>(114,102)</u>

2. Consolidated Profit and Loss Reports

	For the Three Month Period Ending March 31 2008			For the Three Month Period Ending March 31 2007		
	Before Restate- ment	Restate- ment Influence	After Restate- ment	Before Restate- ment	Restate- ment Influence	After Restate- ment
	Thousands of Dollars			Thousands of Dollars		
Operating costs	<u>416,572</u>	<u>(1,798)</u>	<u>414,774</u>	<u>339,587</u>	<u>(11,326)</u>	<u>328,261</u>
Tax benefit (tax expenses)	<u>10,120</u>	<u>(452)</u>	<u>9,668</u>	<u>5,933</u>	<u>(3,285)</u>	<u>2,648</u>
Net profit (loss) for the period	<u>(49,946)</u>	<u>1,346</u>	<u>(48,600)</u>	<u>(15,263)</u>	<u>8,041</u>	<u>(7,222)</u>
Base profit (loss) per share – in dollars	<u>0.1</u>	<u>-</u>	<u>0.1</u>	<u>(0.04)</u>	<u>0.02</u>	<u>(0.02)</u>
Diluted profit (loss) per share – in dollars	<u>0.1</u>	<u>-</u>	<u>0.1</u>	<u>(0.04)</u>	<u>0.02</u>	<u>(0.02)</u>
	For the Year Ending December 31 2007					
	Before Restate- ment	Before Restate- ment	Before Restate- ment			
	Thousands of Dollars					
Operating costs	<u>1,539,104</u>	<u>(21,409)</u>	<u>1,517,695</u>			
Tax benefit (tax expenses)	<u>(7,790)</u>	<u>(5,796)</u>	<u>(13,586)</u>			
Net profit (loss) for the period	<u>29,213</u>	<u>15,613</u>	<u>44,826</u>			
Base profit (loss) per share – in dollars	<u>0.06</u>	<u>0.03</u>	<u>0.09</u>			
Diluted profit (loss) per share – in dollars	<u>0.06</u>	<u>0.03</u>	<u>0.09</u>			

Note 2 – Key Sources of Uncertainty Estimates

a. General

In implementing the Group's accounting policy, described in Note 1 above, Company management is required, in certain cases, to exercise its judgment concerning estimates and assumptions made regarding the book value of assets and liabilities not necessarily available from other sources. The related estimates and assumptions are based upon past experience and other factors considered relevant. Actual results may differ from these estimates.

The estimates and the assumptions upon which they are based are examined by management on a regular basis. Changes in the accounting estimates are only recognized for the period in which the change in the estimate took place, in the event that the changes only influence said period or are recognized in the period in question and in future periods in cases in which the changes influences both the current and future periods.

b. Key Sources of Uncertainty Estimates

(1) Provisions for Legal Proceedings

As of March 31 2008, the Company faces legal claims totaling \$248 million. In addition, further claims exist not quantified in monetary terms. For several of the above claims the Company has listed provisions to the amount of \$24.4 millions (the above sums of claims and provisions do not include deduction assessments issued the Company – see subsection 3 below). In order to determine the legal relevance of these claims, as well as to determine the probability of them adversely affecting it, Company management relies on the opinion of legal and professional counsel. After the Company's advisors formulate their legal position and the Company's chances of withstanding a claim, either by facing its consequences or by rebuffing it, Company management estimates the sum to be listed in the Financial Statements, if any. An interpretation differing from that of the Company's legal counsel to an existing legal situation, a different understanding on behalf of Company management concerning its contracts as well as changes resulting from pertinent rulings or the revealing of additional facts, may all influence the value of the comprehensive provision for legal proceedings against the Company and thus have a material influence on the Company's legal status and the results of its activities.

(2) Taxes on Income

The Company possesses deduction assessments the tax results thereof are uncertain. The Company recognizes liabilities resulting from the tax results of said transactions, based on management estimates, which rely on the opinions of professional advisors, regarding the timing and level of tax liabilities that may result from them. In the event that the tax results of these transactions differs from management estimates, tax expenses will change when the final assessment is determined.

(3) Employee Benefits

The current value of the Company's liability for the payment of severance pay, pension plans and further employee benefits, is based on a broad range of data, determined based on an actuary appraisal, using a great number of assumptions, including capitalization rates. Changes in actuary appraisals may influence the book value of the Company's liabilities for the payment of severance pay and pension payments. The Company estimates the capitalization rate once a year, based on the

capitalization rate of government bonds. Other key assumptions are determined based on market conditions and based on accumulated Company experience. For further details on assumptions employed by the Company, see Note 1v.

(4) Aircraft Depreciation

As stated in Note 1k, in the case of an aircraft fleet showing signs of depreciation, the Company performs an estimate of the recoverable sum of said fleet. The recoverable sum is the aircrafts' sales price or usage value, whichever is higher. In assessing usage value, the Company estimates future cash flows and deducts them to their current value, using a discount rate reflecting current market estimates. In this framework the Company relied on projections regarding, among other things, expected activity levels, ticket and bills of lading prices, operating costs and future interest rates. Material changes in these estimates, or in a portion thereof, may influence the value of these aircrafts' returnable sums.

(5) Passenger Club Liabilities

The provision for passenger clubs is calculated based on an estimate of the effective cost to the Company resulting from the usage of the benefits awarded according to the plans in question, using an estimate of the probability the benefits will be utilized. The effective cost is based upon an estimate of the expected relative weight, in management's opinion, of the marginal expenses the Company may be forced to bear and the loss of alternate income resulting from turning away paying passengers, in the realization of said benefits.

Note 3 – Seasonality

Passenger traffic at Ben Gurion Airport is characterized by a high level of seasonality. Most activity takes place during the summer months, with the peak being between July and September. The winter months (January–March) are characterized by low levels of passenger traffic.

Note 4 – Fixed Assets

- a. On March 16 2008, an agreement was signed between the Company and aircraft manufacturer Boeing, according to which the Company shall purchase from Boeing four new 777-200 ER aircraft.

These aircraft, which will be equipped with Rolls Royce engines, are expected to join the Company's medium and long range passenger fleets and will be configured at 279 seats. The aircraft will be supplied to the Company in January 2012, April 2012, November 2012 and January 2013.

The total purchase cost of all four planes, including spare parts and modifications required for them to meet Company requirements, is \$540 million,

In accordance with the agreement with Boeing, payments for each plane shall only begin two years before the aircraft is delivered to the Company. Therefore, at this stage the Company has yet to reach a final decision on the transaction's financing and the Company is examining its various options.

In accordance with the terms of the agreement, the Company was granted the option to convert the purchase in question to new 777-300 ER aircraft (equipped with GE engines) with a 348 seat configuration. Realizing this option is subject to a decision on behalf of the Company, to be made by December 31 2008. Realizing the option involves changing the terms of the agreement, but the delivery dates of the aircraft will remain unchanged.

In addition, the agreement contains an additional option granted the Company to purchase two additional aircraft of the model in question, to be delivered to the Company in 2014 and 2015, in accordance with the terms of the agreement.

The Company is examining its existing aircraft fleet and its required adjustments in light of the purchase, of other aircraft purchase agreements (as reported by the Company) and in accordance with the Company's El Al 2010 business strategy.

In the matter of an event occurring after the Balance Sheet date – see Note 10a.

- b. On April 10 2008 an agreement was signed between the Company and a Spanish airline, according to which 3 new 737-800 aircraft will be purchased at this stage. The aircraft are expected to be delivered over the course of 2009. The estimated total investment for the purchase of the above three aircraft, including the investments required for their absorption at the Company, is expected to reach \$145 million, Independent financing means are expected to make up 15% of the price of the aircraft, with the balance financed by loans.

This purchase has been made in accordance with the Company's business strategy of acting to gradually refresh their fleet of aircraft, in accordance with the El Al 2010 business strategy.

The Company has paid \$3 million on account of the above three aircraft over the course of the accounting period.

In the matter of an event after the Balance Sheet date – see Note 10b.

- c. On January 10 2008 the Company signed an agreement to purchase a single 747-400 passenger jet. The aircraft was manufactured in 1994, and will be delivered to the Company no later than December 2008.

The Company will pay a total of \$50 million for the purchase of the plane and for investments required to absorb it into the Company and for additions and modifications done to the aircraft so as to adopt it to the Company's needs. Payment for the aircraft shall be made upon delivery.

Independent financing costs are expected to reach \$10 million, and the balance shall be financed via loans taken in accordance with a long term credit agreement with a foreign bank.

The purchase of the aircraft is in accordance with the Company's El Al 2010 business strategy, under which the Company continues to examine its equipping needs.

Note 5 – Legal Proceedings

a. Class Actions

Two legal and financial claims were filed against the Company in previous years previously confirmed by the courts as class actions:

- (1) In November 1998 a claim was filed against the Company, along with a request that the claim be recognized as a class action, in the Nazareth district court, to the amount of \$230.4 million NIS (some \$64 million as of the Balance Sheet date). The claim was in the matter of travel agents overbilling plane tickets, which occurred, the plaintiff claims, as a result of the use of improper exchange rates. In 2002 the Court approved the request to recognize the claim as a class action suit as regards the Consumer Protection Law. The Company has filed an appeal to the Supreme Court. In the opinion of Company management, based on the advice of legal counsel, the Company is not expected to be found liable in this claim. No provision for this claim was included in the Financial Statements.
- (2) A claim was filed in the Tel Aviv District Court in September 1999 against the Company and against the Airport Authority and Ofir Tours (a travel agency) along with a request to recognize it as a class action, to the amount of 21.7 million NIS (some \$6 million as of the Balance Sheet date). The plaintiff claims that the travel agency charged passenger tax at a rate higher than the appropriate legal rate, that being the representative rate, and that the Company is responsible for the agents' actions in this matter. In 2002 the court approved the request to recognize the claim as a class action in the matter of violating a legal obligation based on Regulation 29 of the Civil Law Regulations. The Company has filed an appeal to the Supreme Court.

A ruling was made in October 2005 in which the Supreme Court decided that class actions are only allowed by force of legislation specifically allowing such a possibility, and that class actions may not be filed in general by virtue of Regulation 29 above.

As a result, the parties were asked to present their position to the court as regards further proceedings. The plaintiff announced that it asks to continue the discussion on causes by virtue of the Consumer Protection Law not approved in the District Court. The court has yet to issue a ruling on the subject.

b. Antitrust Legal Proceedings Abroad

- (1) In February 2006 the Antitrust Division of the U.S. Department of Justice ("the Antitrust Division") commenced an open investigation, in conjunction with competition authorities in other countries, of alleged price fixing regarding certain raises in airborne cargo shipping prices. A number of air cargo carriers announce that they had received grand jury summons in relation to this investigation. On September 27 2006 the Company received a grand jury order from the Antitrust Division demanding information and documents related to pricing practices and certain price raises in the field of cargo shipping, starting from the beginning of 1999 until the issue of the order. The Antitrust Division informed the Company that it was being targeted as a suspect in their investigation. The Company is cooperating with the investigation, and at the same time is also carrying out an internal investigation on its cargo pricing practices. At this stage the Company cannot evaluate the results of the Antitrust Division investigation or assess the possible financial impact of the investigation. Nonetheless, it should be noted that its implications may include administrative or civil proceeding and/or criminal charges, including fines and/or personal liability. It should also be noted that penalties for the violation of antitrust laws can be stiff, both in criminal liability and civil liability terms. Regarding the provision made in the Financial Statements – see Note 10c.

- (2) In December 2006 the Company received a letter from the European Commission for Competitiveness ("the Commission"), delivered to the Company's Germany offices, with a request for information regarding an investigation run by the Commission. The letter stated that the request for information was being made as part of an investigation carried out by the Commission in the matter of activities allegedly harming competitiveness in the field of air cargo shipment, and that the Commission possessed information concerning extensive contacts between airlines and other entities concerning various price raises and other subjects such as cargo shipping rates.

As part of the letter the Company was asked to deliver data and documents concerning the Company and its cargo activity starting 1995. The Company has submitted its response as requested by the Commission's letter, while concurrently holding its own internal investigation in the matter of cargo pricing practices. At this stage, the Company cannot evaluate the results of the Commission's investigation or assess the possible financial impact the investigation may have on the Company, and as a result, no provision for this investigation is included in the Financial Statements.

In accordance with the publications made by the Commission and several foreign companies, in December 2007 the Commission sent a "letter of claims" to a number of airlines in the matter of the investigation in question, which contained claims of alleged violation of EU competitiveness legislation. As yet, the Company has not received the letter in question, and as far as it knows it has not been included among the companies to which the letter was addressed.

Nevertheless, it must be noted that the implications of the investigation may include administrative actions taken against the Company, including significant fines which may be placed upon the Company at the conclusion of proceedings.

- (3) The above legal proceedings, which are related to investigations held by antitrust authorities, may have a severe impact on the Company resulting from the fines these entities are entitled to place, which can be extraordinarily high.
- (4) In late February 2007 a civil suit was filed against the Company in a New York court in the matter of air cargo shipping prices.

The claim included the Company as a defendant alongside 38 other airlines, stating that the defendants had conspired to fix airline cargo shipping service prices starting in 2000, in violation of competitiveness laws and other European and U.S. legislation.

The suit was filed on behalf of entities purchasing air cargo shipping services, directly and indirectly, in Europe and in the U.S. and includes a request to recognize it as a class action suit. The suit includes a request for undefined monetary compensation and additional compensation.

The Company has joined a joint legal team along with others of the airlines mentioned in the suit, which has submitted a number of preliminary motions to the court, including a request to dismiss the suit.

In light of the preliminary nature of the proceedings, the Company cannot assess the implications or the financial impact the proceedings will have on the Company, and as a result, no provision has been made for this suit in these Financial Statements.

Note 6 – Taxes on Income

According to the Coordination Law and the Income Tax Regulations (Rules on the Management of Books of Companies as Regards Foreign Investments and of Certain Partnerships and the Determination of their Taxable Income) 5756-1986 ("the Dollar Regulations"), the Company's taxable results and those of some of its subsidiaries are measured based on their correspondence with the exchange rate of the U.S. dollar.

The Company's primary Israeli consolidated companies are subject to the Income Tax Law (Adjustments due to Inflation) 5745-1985 ("the Adjustments Law"), leading to the results being measured on a real basis, adjusted to changes in the Consumer Price Index.

On February 26 2008 the Knesset passed the Income Tax Law (Adjustments due to Inflation) (Amendment 20) (Limitation of Incidence) 5768-2008 (hereinafter – "the Amendment"), according to which the incidence of the Adjustments due to Inflation law conclude end in the 2007 tax year, and from the 2008 tax year inward the provisions of the law shall no longer apply, with the exception of transition provisions the purpose of which is to prevent irregularities in tax calculations.

In accordance with the Amendment, from the 2008 tax year onward, adjustment of income for tax purposes shall no longer be calculated to a real measurement base. Additionally, the index linkage of depreciation sums on fixed assets and of sums of losses transferred for tax purposes shall be stopped, in such a manner that these sums shall be adjusted to the index at the end of the 2007 tax year, and their indexing shall cease from that point onward,

The dollar regulations shall continue to apply to the Company after the end of the Adjustments Law's incidence.

Note 7 – Security Expenses

1. On January 27 2008, a Government Decision was reached, the essence of which was as follows:
 - a. An increase in the State's participation in the security expenses of the Israeli airlines to a rate of 80% of the total direct costs for their activities on existing and future international routes (this compared to the 50% participation rate in effect today).
 - b. A revision of the decision of the Ministers' Committee on Matters of Society and Economics dated May 19 2003 in the matter on the State of Israel's aviation policy for regular routes. The previous decision stated that the Company shall continue as the designated carrier on all lines in which it served as the designated carrier prior to the publication of the Company's prospectus in 2003. Also included in the previous decision were terms and considerations allowing the Minister of Transportation to revoke the Company's status as a designated carrier for a certain route and/or grant rights to a different Israeli designated carrier for a certain route. It was decided that the policy shall be considered if and when the volume of incoming and outgoing Israeli airborne passenger traffic passes 10.7 million passengers per year.

The Government Decision dated January 27 2008 states that the aforementioned guiding principles shall be revoked and in their place the Minister of Transport, as part of his considerations concerning Israel's aviation policy, according to his duly designated rights, shall consider granting rights to an additional designated carrier for regular flight routes, as well as consider revoking the Company's status as a designated carrier for a certain line.

The Company's Board of Directors has decided that the Government Decision in question is acceptable in light of the increase in the government's participation in the Israeli airlines' security expenses, as stated above, and based on the declaration included in the Government Decision concerning its tendency to allow Israeli airlines to participate, as much as possible, in fair and equal contest with foreign airlines while recognizing the need for a strong Israeli aviation sector.

2. As of the approval of the Financial Statements, the government has yet to approve a budgetary source for the funding of the above addition in its participation in security expenses, and therefore has failed to transfer its added participation (30%) in said expenses to the Company. In the Financial Statements for the three month period ending March 31 2008, the additional participation of the government of Israel in security expenses was not taken into account.

In the matter of an event after the Balance Sheet date – see Note 10d.

Note 8 – Operating Segments

The following is a report on geographic segments on a consolidated basis.

	<u>North America</u>	<u>Europe</u>	<u>East and Central Asia</u>	<u>The Rest of the World</u>	<u>Total</u>
	<u>Thousands of Dollars</u>				
For a three month period ending March 31 2008 (unaudited) -					
Income -					
Segmental income	<u>157,898</u>	<u>202,369</u>	<u>90,877</u>	<u>12,478</u>	463,622
Income not attributed to segments					<u>7,844</u>
Total income					<u>471,466</u>
Operating profits -					
Segmental operating profit (loss)*	<u>401</u>	<u>15,819</u>	<u>8,194</u>	<u>1,914</u>	26,328
Cross-segmental expenses, net					<u>(71,917)</u>
Loss from operations before financing expenses					<u>(45,589)</u>
For a three month period ending March 31 2007 (unaudited) -					
Income -					
Segmental income	<u>129,478</u>	<u>160,390</u>	<u>78,849</u>	<u>9,837</u>	378,554
Income not attributed to segments					<u>10,080</u>
Total income					<u>388,634</u>
Operating profits -					
Segmental operating profit (loss)*	<u>95</u>	<u>19,148</u>	<u>8,097</u>	<u>2,882</u>	30,222
Cross-segmental expenses, net					<u>(29,468)</u>
Profit from operations before financing expenses					<u>754</u>
For the year ending December 31 2007 (Audited) -					
Income -					
Segmental income	<u>674,728</u>	<u>822,320</u>	<u>356,796</u>	<u>42,060</u>	1,895,904
Income not attributed to segments					<u>36,546</u>
Total income					<u>1,932,450</u>
Operating profits -					
Segmental operating profit (loss)*	<u>56,662</u>	<u>144,108</u>	<u>33,405</u>	<u>11,212</u>	245,387
Cross-segmental expenses, net					<u>(150,714)</u>
Profit from operations before financing expenses					<u>94,673</u>

* Restated – see Note 1z.

Note 9 – Financial Information in Accordance with International Financial Reporting Standards

a. General

Following the publication of Accounting Standard 29, "Adoption of International Financial Reporting Standards" in July 2006, the Company has adopted IFRS standards starting January 1 2008.

According to IFRS 1, which deals with the first time adoption of IFRS standards, and considering the date on which the Company chose to first adopt the standards, the first Financial Statements the Group is required to prepare in accordance with the IFRS are the Consolidated Financial Standards dated December 31 2008 for the year ending that date. The date of the Company's transfer to IFRS reporting, as defined in IFRS 1, is January 1 2007 (hereinafter – "the Transfer Date"), with the opening Balance Sheet being the Balance Sheet dated January 1 2007 (hereinafter – "the Opening Balance Sheet"). The Company's 2008 interim Financial Statements shall also be prepared in accordance with the IFRS, including their comparison numbers.

As part of the opening balance, the Company performed the following actions:

- Recognizing any asset or liability the recognition of which on the Balance Sheet is required in accordance with the IFRS.
- Not recognizing assets or liabilities that according to the IFRS standards should not be recognized in the balance sheet.
- Classifying asset, liability and equity items in accordance with the IFRS.
- Measuring all the assets and liabilities recognized in accordance with the IFRS.

IFRS 1 states that the implementation of IFRS standards in the Opening Balance shall be retroactive. Nevertheless, IFRS1 includes a number of reliefs, concerning which no obligation exists for retroactive implementation. In the matter of the reliefs implemented by the Company, see Item f. below.

Changes in accounting policy implemented by the Company retroactively in the opening Balance Sheet in accordance with IFRS standards compared to the accounting policy in accordance with generally accepted accounting practices were recognized directly under Surpluses or a different item of the equity capital group, as the case may be.

This Note has been prepared based on international reporting and accounting standards and the clarifications thereof as known today, published and valid or available for early adoption as of the Group's first annual report in accordance with the IFRS on December 31 2008. As detailed in Note 1z, Company management has made assumptions concerning accounting policy which are expected to be implemented upon the preparation of the first annual Financial Statements prepared in accordance with the IFRS for the year ending December 31 2008.

IFRS standards that will be in effect or may be adopted in the Financial Statements for the year ending December 31 2008 are subject to changes and to the issuing of new clarifications. Accordingly, the principles of accounting policy implemented on the presented periods shall only be determined unequivocally upon the preparation of the first Financial Statements prepared in accordance with the IFRS on December 31 2008.

The following are the consolidated Balance Sheets and consolidated equity capital components dated January 1 2007, March 31 2007 and December 31 2007 and the

consolidated Profit and Loss Reports for the three months ending March 31 2007 and for the year ending December 31 2007, prepared in accordance with international accounting rules. Also presented are the material adjustments required for the shift from reporting in accordance with generally accepted Israeli accounting standards to reporting in accordance with the IFRS.

b. Consolidated Balance Sheets

		March 31 2007			
Further Info	Israeli Standards	Adjust- ments	Classifi- cations	By IFRS Rules	
		Thousands of Dollars			
<u>Current Assets</u>					
		137,085	-	-	137,085
		18,000	-	-	18,000
		167,044	-	-	167,044
	8	54,903	-	(28,486)	26,417
	3	-	9,381	-	9,381
	5	32,503	-	(32,503)	-
	8	-	-	25,393	25,393
		18,927	-	-	18,927
		<u>428,462</u>	<u>9,381</u>	<u>(35,596)</u>	<u>402,247</u>
<u>Non-Current Assets</u>					
		1,926	-	-	1,926
		2,324	-	-	2,324
		1,855	-	-	1,855
	3	-	5,720	3,093	8,813
		1,163,813	-	-	1,163,813
		3,373	-	-	3,373
		<u>1,173,291</u>	<u>5,720</u>	<u>3,093</u>	<u>1,182,104</u>
		<u>1,601,753</u>	<u>15,101</u>	<u>(32,503)</u>	<u>1,584,351</u>
<u>Current Liabilities</u>					
		104,681	-	-	104,681
		148,943	-	-	148,943
	4,8	391,467	-	(343,017)	48,450
	2,8	-	417	74,673	75,090
	3	-	22,576	-	22,576
	1,8	-	(1,160)	76,816	75,656
	8	-	-	191,528	191,528
		<u>645,091</u>	<u>21,833</u>	<u>-</u>	<u>666,924</u>
<u>Long Term Liabilities</u>					
		560,100	-	-	560,100
	1	124,365	(19,104)	-	105,261
		643	-	-	643
	3	-	224	-	224
	5	70,372	8,804	(32,503)	46,673
		<u>755,480</u>	<u>(10,076)</u>	<u>(32,503)</u>	<u>712,901</u>
		<u>201,182</u>	<u>3,344</u>	<u>-</u>	<u>204,526</u>
		<u>1,601,753</u>	<u>15,101</u>	<u>(32,503)</u>	<u>1,584,351</u>

	Further Info	For December 31 2007				For January 1 2007			
		Israeli Standards	Adjustments	Classifications	By IFRS Rules	Israeli Standards	Adjustments	Classifications	By IFRS Rules
Thousands of Dollars									
Current Assets									
Cash and cash equivalents		86,670	-	-	86,670	146,158	-	-	146,158
Short term deposits		180,633	-	-	180,633	4,682	-	-	4,682
Customers		143,617	-	-	143,617	132,544	-	-	132,544
Receivables and debit balances	8	51,953	-	(29,699)	22,254	47,342	-	(21,382)	25,960
Derivative financial instruments	3	-	21,881	3,649	25,530	-	5,810	-	5,810
Deferred Taxes	5	19,569	592	(20,161)	-	30,645	1,368	(32,013)	-
Advance expenses	8	-	-	25,096	25,096	-	-	18,479	18,479
Inventory		15,981	-	-	15,981	17,190	-	-	17,190
		<u>498,423</u>	<u>22,473</u>	<u>(21,115)</u>	<u>499,781</u>	<u>378,561</u>	<u>7,178</u>	<u>(34,916)</u>	<u>350,823</u>
Non-Current Assets									
Long term bank deposits		2,207	-	-	2,207	1,836	-	-	1,836
Investment in included companies		2,268	-	-	2,268	2,280	-	-	2,280
Investment in a different company		1,715	-	-	1,715	1,829	-	-	1,829
Derivative financial instruments	3	-	7,570	-	7,570	-	6,258	2,904	9,162
Fixed assets		1,286,421	-	(669)	1,285,752	1,176,528	-	-	1,176,528
Other intangible assets		3,719	-	669	4,388	3,455	-	-	3,455
		<u>1,296,330</u>	<u>7,750</u>	<u>-</u>	<u>1,303,900</u>	<u>1,185,928</u>	<u>6,258</u>	<u>2,904</u>	<u>1,195,090</u>
		<u>1,794,753</u>	<u>30,043</u>	<u>(21,115)</u>	<u>1,803,681</u>	<u>1,564,489</u>	<u>13,436</u>	<u>(32,012)</u>	<u>1,545,913</u>

	For December 31 2007						For January 1 2007				
	Israeli Standards			Adjust- ments	Classifi- cations	By IFRS Rules	Israeli Standards	Adjust- ments	Classifi- cations	By IFRS Rules	
	Further Info	As Previously Reported	Restate- ment Influence								After Restate- ment
Thousands of Dollars											
<u>Current Liabilities</u>											
Short term credit and current maturities		66,316	-	66,316	-	-	66,316	105,100	-	-	105,100
Suppliers and service providers		167,420	-	167,420	-	-	167,420	144,990	-	-	144,990
Creditors and credit balances	4,8	407,842	7,435	415,277	-	(368,093)	47,185	332,691	19,930	(291,521)	61,100
Dividends offered for payment		3,008	-	3,008	-	-	3,008	-	-	-	-
Provisions	2,8	-	-	-	388	89,233	89,621	-	(138)	74,516	74,378
Derivative financial instruments	3	-	-	-	-	-	-	-	8,811	-	8,811
Liabilities due to employee benefits	1,8	-	-	-	(2,531)	90,109	87,578	-	(704)	74,660	73,956
Advance income		-	-	-	-	188,751	188,751	-	-	142,345	142,345
		<u>644,587</u>	<u>7,435</u>	<u>652,022</u>	<u>(2,143)</u>	<u>-</u>	<u>649,879</u>	<u>582,781</u>	<u>27,900</u>	<u>-</u>	<u>610,681</u>
<u>Long Term Liabilities</u>											
Long term loans from financial institutions		713,793	-	713,793	-	-	713,793	566,104	-	-	566,104
Liabilities due to employee benefits	1	70,936	-	70,936	(16,185)	-	54,751	126,171	(20,077)	-	106,094
Long term loans from others		423	-	423	-	-	423	730	-	-	730
Derivative financial instruments	3	-	-	-	2,369	(954)	1,415	-	1,861	-	1,861
Deferred taxes	5	72,510	(223)	72,287	12,450	(20,161)	64,576	74,603	6,790	(32,013)	49,380
		<u>857,662</u>	<u>(223)</u>	<u>857,439</u>	<u>(1,366)</u>	<u>(21,115)</u>	<u>834,958</u>	<u>767,608</u>	<u>(11,426)</u>	<u>(32,013)</u>	<u>724,169</u>
<u>Equity Capital</u>											
		<u>292,504</u>	<u>(7,212)</u>	<u>285,292</u>	<u>33,552</u>	<u>-</u>	<u>318,844</u>	<u>214,100</u>	<u>(3,038)</u>	<u>-</u>	<u>211,062</u>
		<u>1,794,753</u>	<u>-</u>	<u>1,794,753</u>	<u>30,043</u>	<u>(21,115)</u>	<u>1,803,681</u>	<u>1,564,489</u>	<u>13,436</u>	<u>(32,013)</u>	<u>1,545,913</u>

c. **Consolidated Profit and Loss Reports**

	Further Info	For the Three Month Period Ending March 31 2007			By IFRS Rules
		Israeli Standards	Adjustments	Classifications	
Thousands of Dollars					
Operating income		388,634	-	-	388,634
Operating expenses	1,3	341,100	(12,839)	-	328,261
Gross profit		47,534	12,839	-	60,373
Sales expenses	1	42,295	62	-	42,357
Administrative and general expenses	1,2	22,490	633	-	23,123
Other income, net	7	-	-	(5,861)	(5,861)
Operating profit (loss) before financing income (expenses), net		(17,251)	12,144	5,861	754
Financing expenses	3,4	(8,394)	(2,274)	(2,968)	(13,636)
Financing income	6	-	-	2,968	2,968
Operating loss after financing income (expenses), net		(25,645)	9,870	5,861	(9,914)
Other income, net	7	5,861	-	(5,861)	-
Loss before tax on income		(19,784)	9,870	-	(9,914)
Tax on income		6,104	(3,456)	-	2,648
Loss after tax on income		(13,680)	6,414	-	(7,266)
Portion in the results of held companies, net		44	-	-	44
Loss for the period		(13,636)	6,414	-	(7,222)
Loss per a single 1 NIS NV regular share (in USD):					
Loss per basic share		(0.04)	0.02	-	(0.02)
Loss per diluted share		(0.04)	0.02	-	(0.02)

For the Year Ending December 31 2007

	Further Info	Israeli Standards			Adjustments	Classifications	By IFRS Rules
		As Previously Reported	Restatement Influence	After Restatement			
		Thousands of Dollars					
Operating income		1,932,450	-	1,932,450	-	-	1,932,450
Operating expenses	1,3	1,539,658	-	1,539,658	(21,963)	-	1,517,695
Gross profit		392,792	-	392,792	21,963	-	414,755
Sales expenses	1	230,637	-	230,637	249	-	230,886
Administrative and general expenses	1,2	90,781	-	90,781	838	-	91,619
Other income, net	7	-	-	-	-	(2,423)	(2,423)
Operating profit before financing income (expenses), net		71,374	-	71,374	20,876	2,423	94,673
Financing expenses	3,4	(33,393)	-	(33,393)	(5,581)	(17,088)	(56,062)
Financing income	6	-	(770)	(770)	3,151	17,088	19,469
Operating loss after financing income (expenses), net		37,981	(770)	37,211	18,446	2,423	58,080
Other income, net	7	2,423	-	2,423	-	(2,423)	-
Profit before tax on income		40,404	(770)	39,634	18,446	-	58,080
Tax on income		(9,001)	223	(8,778)	(4,808)	-	(13,586)
Profit after tax on income		31,403	(547)	30,856	13,638	-	44,494
Portion in the results of held companies, net		332	-	332	-	-	332
Net profit for the period		31,735	(547)	31,188	13,638	-	44,826
Loss per single 1 NIS NV regular share (in USD):		0.07	-	0.07	(0.02)	-	0.09
Net profit per basic share		0.06	-	0.06	(0.03)	-	0.09
Net Profit per diluted share							

d. Capital Adjustments

	Further Info	Stock Capital	Stock Premium	Capital Reserve from Deals with Former Controlling Party	Capital Reserve from Share Based Payment	Capital Reserve from hedging Cash Flows	Balance of Loss	Total
Thousands of Dollars								
As of January 1 2007								
Israeli Standards		131,536	904	218,498	2,582	-	(139,420)	214,100
Adjusting liability due to the termination of employer-employee relationships	1	-	-	-	-	-	15,585	15,585
Presenting hedging instruments at fair value	3	-	-	-	-	4,149	(2,945)	1,204
Presenting liabilities at fair value due to options issued.	4	-	-	-	-	-	(19,930)	(19,930)
Presenting liabilities for legal claims	2	-	-	-	-	-	103	103
According to IFRS rules		<u>131,536</u>	<u>904</u>	<u>218,498</u>	<u>2,582</u>	<u>4,149</u>	<u>(146,607)</u>	<u>211,062</u>
As of March 31 2007								
Israeli Standards		131,681	955	218,498	3,104	-	(153,056)	201,182
Adjusting liability due to the termination of employer-employee relationships	1	-	-	-	-	-	15,197	15,197
Presenting hedging instruments at fair value	3	-	-	-	-	3,932	6,252	10,184
Presenting liabilities at fair value due to options issued.	4	-	185	-	-	-	(21,909)	(21,724)
Presenting liabilities for legal claims	2	-	-	-	-	-	(313)	(313)
According to IFRS rules		<u>131,681</u>	<u>1,140</u>	<u>218,498</u>	<u>3,104</u>	<u>3,932</u>	<u>(153,829)</u>	<u>204,526</u>
For December 31 2007								
Israeli standards as previously reported		155,012	9,248	243,787	4,464	-	(120,007)	292,504
Restatement influence*		-	-	(6,665)	-	-	(547)	(7,212)
Israeli standards after restatement		<u>155,012</u>	<u>9,248</u>	<u>237,122</u>	<u>4,464</u>	<u>-</u>	<u>(120,554)</u>	<u>285,292</u>
Adjusting liability due to the termination of employer-employee relationships	1	-	-	-	-	-	14,037	14,037
Presenting hedging instruments at fair value	3	-	-	-	-	8,341	11,464	19,805
Presenting liabilities at fair value due to options issued.	4	-	18,759	-	-	-	(18,759)	-
Presenting liabilities for legal claims	2	-	-	-	-	-	(290)	(290)
According to IFRS rules		<u>155,012</u>	<u>28,007</u>	<u>237,122</u>	<u>4,464</u>	<u>8,341</u>	<u>(114,102)</u>	<u>318,844</u>

- e. The Financial Statements dated December 31 2007 for the year ending that date were presented anew (in the framework of Israeli standardization) in such a manner that the capital reserve from transactions with a former controlling party was reduced by an amount of \$6,665 thousand, against the listing of a liability, this until the clarification of special status in return for the exercise of options deposited by the State in the employees'

compensation fund beyond the "deficit" in the employees' compensation fund, as defined in the agreement signed on June 3 2004 between the Company, the State and the employees' representatives. The influence on the financing income for the year ending December 31 2007 is a \$770,000 decrease, and on the other hand, a decrease in tax expenses by an amount of \$223,000.

f. Further Information:

1. In accordance with generally accepted Israeli accounting rules, liabilities resulting from the termination of the employer-employee relationship are recognized on a full liability basis, assuming that all the employees are dismissed on the Balance Sheet date under terms granting them full compensation without taking capitalization rates, future salary cost rates and future departures into account. In accordance with IFRS rules, all liabilities resulting from benefits to employees upon their departure and other long term benefit plans are measured in accordance with the instructions listed in IAS19 regarding employee benefits. Employee benefits part defined benefit plans are measured, inter alia, based on actuary estimates and capitalized sums. Additionally, in accordance with IFRS rules, no provision for the termination of employee-employer relationships is listed as regards events in which the employee benefit is only granted if the dismissal event was caused by the employer.

Retirement plan provisions – in accordance with generally accepted Israeli accounting rules, provisions for early retirement plans are listed according to management's expectations regarding their realization. According to the IFRS, recognition of a retirement plan shall only be listed when a formal and detailed retirement plan, which created an irrevocable liability to the Company, exists.

In addition, in accordance with generally accepted Israeli accounting rules, vacation provisions are recognized on a full liability basis assuming that employee make full use of the vacation days at their disposal on the short term.

According to IFRS rules, liabilities deriving from vacation days are carried out in accordance with the expectation of their use and are measured based on actuary liabilities and capitalized sums.

To date, the Company has only listed a provision for the redemption of unused sick days upon retirement for employees over 45 and in non-capitalized values. According to IFRS rules, this provision was calculated for all Company employees at capitalized values.

The influence of the above on the Balance Sheet was a decrease in net liabilities due to employee benefit plans, for January 1 2007, March 31 2007 and December 31 2007, to amounts of \$20,781,000, \$20,264,000 and \$18,716,000, respectively.

Concurrently, a decrease occurred in deferred taxes receivable dated January 1 2007, March 31 2007 and December 31 2007, to amounts of \$5,196,000, \$5,067,000 and \$4,679,000, respectively.

The capitalization rate used to capitalize the actuary liabilities was determined via the use of market yields of government bonds, as in the Company's opinion, Israel does not have a "deep" enough market of high quality corporate bonds. The subject of capitalization rates is being examined and a decision may be reached that the proper Israeli capitalization rate be considered that based on the market yields of corporate bonds. In the event that such a decision is reached, the data calculated and

included in this Note shall change, as use of a higher capitalization rate shall, on the one hand, decrease actuary liability, while on the other increase current interest costs resulting from actuary liabilities.

2. According to generally accepted Israeli accounting rules, the Company shall recognize a provision resulting from open claims if the use of economic resources in order to remove the liability is probable. According to the IFRS, the provision must be recognized if the chance of the liability's existence as of the Balance Sheet date is more likely than not. The size of the provision is determined according to the sum the Company estimates it would be willing to pay in order to dismiss the claim.

As a result, the following changes have occurred as regards the legal claims provision dated January 1 2007, March 31 2007 and December 31 2007: a \$138,000 decrease, \$417,000 increase and \$388,000 increase, respectively. Concurrently, the following changes have occurred in the deferred tax liability dated January 1 2007, March 31 2007 and December 31 2007: and \$35,000 increase, \$104,000 decrease and \$98,000 decrease, respectively.

3. Unlike generally accepted Israeli accounting rules, in accordance with IAS 39, all derivative financial instruments are recognized as assets or liabilities at fair value. Changes in fair value shall be attributed to profit and loss (with speculative instruments not meeting the conditions required for recognition as defensive instruments) or to capital reserves (with instruments intended to hedge predicted cash flow and which meet the requisite conditions for recognition as defensive instruments). Upon the shift to IFRS, some of the jet fuel hedging agreements shall be presented in the Opening Balance Sheet at fair value, against the capital reserve. The change in fair value of these hedging agreements in the consecutive periods shall be attributed to the capital reserve, regarding the "effective" portion of the hedging instrument and operating or financing expenses, as the case may be, in the Profit and Loss Reports regarding the "ineffective" portion.

Company management has decided that in the framework of the IFRS rules, foreign currency hedging and part of the jet fuel and interest hedging shall be treated as if not intended for defense, and therefore any changes in the fair value of said hedging in consecutive periods shall be attributed to the Financing item in the Profit and Loss Report.

As a result of the presentation of the fair value of all the hedging instruments for January 1 2007, March 31 2007 and December 31 2007, changes occurred in the other financial asset items and the other financial liability items included as part of current assets, non-current assets, current liabilities and non-current liabilities, at a net total of \$1,396,000, \$14,025,000 and \$27,082,000, respectively.

In addition, as a result of hedging recognized as intended for defense, a capital reserve was created January 1 2007, March 31 2007 and December 31 2007 to the amount of \$4,149,000, \$3,932,000 and \$8,341,000, respectively.

Concurrently, a deferred tax reserve was listed for January 1 2007, March 31 2007 and December 31 2007.

4. Options (Series 1) issued by the Company in the past, the exercise bonus of which is linked to the CPI and is not in the Company's operating currency, constitute a financial liability due to their having a non-fixed exercise bonus. In accordance with IAS 32, liability due to said options must be listed in the Opening Balance Sheet

under Creditors and Credit Balances (as their exercise date occurred in 2007) at fair value. The changes in fair value in consecutive periods were attributed to Financing in the Profit and Loss Report per period. Upon the exercise of the options in question, the above liability is added to the premium, so that the shares deriving from the exercise of the options are listed at fair value.

The options in question have been realized by June 2007.

As a result, the derivative financial instruments in the framework of current liabilities item (against the decrease in surpluses) increased, for January 1 2007 and March 31 2007 by amounts of \$19,930,000 and \$21,724,000, respectively.

5. According to generally accepted Israeli accounting practices, assets and liabilities deriving from deferred taxes have been classified as current or non-current assets or current or non-current liabilities, according to the classification of the assets or liabilities by which they were created.

According to IAS 1, assets and reserves resulting from deferred taxes are classified as net non-current assets or liabilities (as the case may be), even if their realization date is expected to be in the short term.

As a result, for January 1 2007, March 31 2007 and December 31 2007 a total of \$32,013,000, \$32,503,000 and \$20,161,000, respectively, were sorted, from deferred taxes receivable in the framework of current property to deferred taxes in the framework of non-current liabilities.

6. According to generally accepted Israeli accounting standards, financing expenses and income are presented as a single sum in the Profit and Loss Report. According to international standards, financing expenses and financing income must be presented separately.

As a result, for the three month period ending March 31 2007 and for the year of 2007, financing income was presented separately to the amount of \$2,968 thousand and \$17,088 thousand, respectively.

7. In accordance with international standards, other income and expenses shall not be included as a separate item after financing income and expenses, as presented according to Israeli standards, but rather be included under operational profit. Accordingly, for the three month period ending March 31 2007 and for the year of 2007, other net income was classified at \$5,861 thousand and \$2,423 thousand, respectively, under operational profit.

8. In accordance with international standards, in the framework of current assets, items that are not financial instruments were re-sorted from receivables and debit balances and presented separately on the balance sheet.

In addition, in the framework of current liabilities, non-financial liabilities were re-sorted from creditors and credit balances to advance income. Employee provisions and benefits were also classified separately.

Derivative financial instruments were presented separately as part of current assets, non-current assets, current liabilities and non-current liabilities, as the case may be, under other financial assets/liabilities.

g. Relief from Retroactive Implementation of IFRS Standards Adopted by the Company:

IFRS 1 contains several reliefs, regarding which no retroactive implementation is required. The following are the reliefs the Company chose to implement in its opening Balance Sheet done in accordance with the IFRS dated January 1 2007 (hereinafter: "the Opening Balance Sheet"):

1. Employee Benefits –

The Company implements the "strip" approach for recognizing actuary profits and losses, in accordance with IAS 19. The Company has chosen to recognize all actuary profits and losses accrued as of January 1 2007 as surpluses.

2. Hedge Accounting

A portion of interest hedging, which constitutes cash flow hedging, and meets IAS 39 hedging requirements, but does not meet the specific designation and date requirements, as been classified as hedging transactions on the transfer date. This after the Company had completed the specific designation and documentation of the hedging relationship of the instruments in question as of the transfer date.

Note 10 – Events after the Balance Sheet Date

- a.** Following Note 4a regarding the purchase agreement for four 777-200 aircraft, the Company's Board of Directors approved said agreement on April 30 2008. Between the Balance Sheet date and the approval of the Financial Statements, the Company has made advance payments for the aircraft in question to the amount of \$9.6 million.

In addition, the Company made an additional payment of \$2 million after the Balance Sheet date for the option granted the Company for the purchase if an additional two aircraft of that model, as stated in Note 4a above.

- b.** Following Note 4b regarding the purchase of three 737-800 aircraft, the Company has made advance payments for said aircraft to the amount of \$12 million between the Balance Sheet date and the approval of the Financial Statements.
- c.** On May 25 2008, the Company's Board of Directors decided to list a provision in its March 31 2008 Financial Statements to the amount of \$20 million, as a result of the investigation by the Antitrust Division of the U.S. Justice Department, in the field of air cargo shipping between 2000 and 2006, as described in Note 5b1. The decision was made based on an examination of the possibility of reaching a settlement with the U.S. Justice Department, and was done as a safety measure, and shall not be taken as an admission of any sort of liability.
- d.** On May 27, the Company submitted a petition before the Supreme Court, sitting as the High Court of Justice, against the Government of Israel, the Minister of Finance, the Minister of Transportation and Traffic Safety and additional respondents, this due to the fact that the Government Decision dated January 27 2008 regarding the increase in government participation in the Company's security expenses, as stated in Note 7 above, has yet to be implemented.