

Elyezer Shkedy, Company CEO & President, today presented El Al's financial results for the first quarter of 2011

The Company's revenues for the first quarter of 2011 totaled \$425 million – similar to last year's

During the first quarter of 2011, El Al's net loss totaled \$42.9 million, compared to \$16.5 million in the parallel quarter of last year

- El Al's market share totaled 38.2%, a drop of about 5% compared to the parallel quarter last year
- El Al's load factor reached 76.7%, compared to a load factor of 81.2% in the parallel quarter last year, a drop of about 5%. The overall scheduled foreign airlines' load factor at Ben Gurion Airport was 70.6%
- Operating expenses during the current quarter totaled \$403.4 million, compared to \$363.6 million in the parallel quarter last year – an increase of about 11%. This was largely the result of the sharp rise in fuel prices, and additional expenses on Company's preparations for increased activity during the upcoming high season
- Cash flow from regular activities during the quarter rose by about 5%, to about \$56.7 million compared to \$53.9 million in the parallel quarter last year.
- Shareholders' equity at 31st March 2011 stood at \$231 million compared to \$231 million as at December 31st, 2010, a drop of about 7%.

Elyezer Shkedy, Company CEO & President: “The financial results for the first quarter of 2011, with emphasis on expenditures, were influenced by several parameters. These were lead by the increased average market price of aviation fuel, which grew by about 39% compared to the parallel quarter last year. In addition, profits were negatively affected by the evaluation of the dollar exchange rates, and by the fact that the Passover travel season was in the 2nd quarter, and not in the 1st as in the last year.

On the revenue side there was a significant increase in competition – reflected in the 14% increase in capacity offered by foreign carriers at Ben Gurion airport.

“However, El Al maintained its turnover capacity, which totaled \$425 million during the 1st quarter. Parallely, there was an increase in the company's operating expenditures, mainly from the sharp rise in fuel prices, and additional expenses on Company's preparations for increased activity during the upcoming high season

“We are acting firmly to match the Company's situation to the realities of commercial circumstances in Israel and around the world. Within this framework we are implementing a plan to reduce expenses, including by phasing out aircraft that are not fuel efficient, and implementing the innovative technologies available to us. We are also taking steps to promote excellence and to increase and improve sales in Israel and worldwide. The aim is to increase Company revenues during the year, enabling us to meet the stiffening market competition.

“Financially, El Al continues to present a strong, sound balance sheet and high liquidity, as reflected in the positive cash flow from regular activities, the levels of cash on hand, and the shareholders' equity.

“As a result of our efforts at heightened efficiency and in creating additional growth engines, internet ticket sales grew by about 14%, while direct sales through our Call Center also increased, by about 9%.

“During the first quarter the Company purchased one Boeing 747-400 passenger aircraft, which is expected to join our fleet in June 2011. In the beginning of 2011 , two leased passenger aircraft also entered service with the Company; one 767-300ER and one 737-800.



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“In February 2011, the Company signed a commercial contract with Boeing Company to purchase four new advanced-design 737-900s. These aircraft are expected to join El Al's fleet at the end of 2013 until 2016. The contract also allows purchasing two more similar aircraft that can be exchanged for optional purchases. El Al also received an option to purchase an additional two aircraft of this type. El Al's Board of Directors yesterday approved the contract.

“We are still developing additional new growth engines in various fields, including strategic cooperative agreements. During the quarter El Al augmented cooperation agreements with other international airlines, so as to expand the number of connection-destinations we offer. In this regard we expanded the code share agreement which was signed with Siberia Airlines in 2010, adding nine additional destinations throughout Russia.

“The entire Company staff, on the ground and in the air, in Israel and abroad, is dedicated and ready for the never-ending focused efforts needed to face up to the challenging market conditions and the ever-sharpening competition.

Financial and operational points of interest for the 1st quarter 2011

	<u>2011</u>	<u>2010</u>	<u>% change</u>
Revenues	425.2	423.2	0.5%
Gross profit	21.8	59.6	(63%)
Operating loss	(53.5)	(14.7)	264%
Net loss	(42.9)	(16.5)	(160%)
Cash flow from regular activities	56.7	53.9	5%
Market share	38.2%	40.2%	(5%)
Load factors	76.7%	81.2%	(5%)

Results for the first quarter 2011.

Revenues for the present quarter totaled \$425.2 million, compared to \$423.2 million in the parallel period last year. Revenues from passenger traffic



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dropped by about 4%, as a result of the reduction in passenger/kilometers and the reduced yield per passenger/kilometer. Cargo revenues grew by about 32%, and totaled \$58.1 million, compared to \$43.9 million in the parallel quarter last year, largely as a result of the increase in cargo movements and yield per ton/kilometer.

Operating expenditure for this quarter totaled \$403.4 million, compared to \$363.6 million in the parallel period last year, an increase of about 11%. The ratio of operating expenses to turnover rose from about 85.9% during the first quarter of 2010, to 94.9% this quarter. Most of the increase stemmed from the costs of aviation fuel, which totaled \$147.3 million (representing about 34.7% on turnover), compared to \$129.1 million in the parallel period last year (30.5% on turnover). The Company's expenditure on aviation fuel increased largely as a result of the increase in the market price of the fuel, compared to the parallel quarter last year: market prices of jet fuel increased by an average of about 39% compared to the parallel quarter last year. During the current quarter the Company received for hedging against fuel prices, about \$15.5 million (compared to hedging costs of about \$18.7 million in the parallel quarter last year); In addition, the increase in operating expenditures resulted from an increase in salary costs when the new labor contract was implemented, and from the Company's preparations for increased activity in the upcoming high season.

Gross profits for the quarter totaled \$21.8 million, (a ratio of about 5.1% on turnover), compared to \$59.6 million in the parallel period last year (about 14.1% on turnover). The reduction is the result of the above-mentioned increases in operating expenses.

Cost of salaries during the first quarter of 2011 increased compared to the parallel period last year, by about \$9.6 million. Most of the increase resulted from the increase in the shekel exchange rate value against the dollar; because the new salary agreement was implemented; and because of increased Company activities which required more staff.

Cost of sales totaled \$44.9 million during this quarter, compared to \$48.6 million in the parallel period last year, a drop of about 7%. There was a reduction in the ratio of cost of sales to turnover, from 11.5% to 10.6%, the result of a drop in the average commission paid.

Management and general expenditures totaled \$24.3 million, compared to \$23.9 million in the parallel period last year, an increase of about 2%. The ratio of these expenditures to turnover totaled about 5.7%, compared to 5.6% in the parallel period in 2010.

The operating loss totaled \$53.5 million, compared to an operating loss of \$14.7 million in the parallel period last year.



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The net loss for the first quarter of 2011 totaled \$42.9 million, compared to a net loss of \$16.5 million in the parallel period of 2010.

Cash flow from regular activities during the quarter ending 31st March 2011 totaled \$56.7 million, compared to the cash flow from regular activities totaling \$53.9 million in the parallel period last year.

As at 31st March 2011, the Group's **cash balances, cash equivalent values and short-term investments** totaled \$182.3 million. It should be noted that during the 1st quarter of 2011, the Company invested about \$37 million in fixed assets, including the purchase of a 747-400 aircraft and advance payments for the purchase of 737-900s. In addition, the Company repaid long-term debts totaling \$13 million.

Shareholders' equity as of 31st March 2011 stood at \$231 million, compared to \$248 million as at 31st December 2010. The reduction in shareholders' equity resulted mainly from the losses in the quarter, after setting off the increase in equity funds for cash flow hedging, resulting from the increase in the fair value of the hedging activities held by the Company.

Mr. Nissim Malki, CFO and Vice President Finance, noted: "El Al continues to present a stable balance sheet with cash, cash equivalents and deposits to the extent of \$182.3 million, and shareholders' equity totaling about \$231 million. The Company recorded a high cash flow, despite of the negative trends that it had to face during the 1st quarter of 2011. This gives the Company a firm financial basis for its future operations. During the quarter the Company invested about \$37 million in fixed assets, including the purchase of a Boeing 747-400, and making advance payments for the purchase of Boeing 737-900s. The Company also repaid \$13 million for repayment long-term debts during the quarter."

About El Al

El Al Israel Airlines is Israel's national carrier. In 2010 El Al's revenues totaled about \$2 billion. The airline flies about 1.9 million passengers a year. El Al serves about 38 destinations directly and many other destinations around the globe, through cooperation agreements with other airlines. The Company operates 40 aircraft, 28 of which are self-owned. El Al is also Israel's leading cargo carrier.