EL AL ISRAEL AIRLINES LTD.

FINANCIAL STATEMENTS
AS OF JUNE 30, 2009
(unaudited)

CONTENTS

Update to Chapter A (Description of Corporate Business)[1] of the 2008 Periodic Report ("Periodic Report") of EL AL Israel Airlines Ltd. ("the Company")

The following are additional updates to Chapter A - a Description of Corporate Business

General

Changes to international standards (IFRS)

Starting from the first quarter of 2009, the Company implemented changes in accounting policy in its Financial Statements deriving from the implementation of new standards and interpretations of International Financial Reporting Standards (IFRS), which came into effect on the Financial Statements dates, including IFRS 8 "Operating Segments", IAS-1 (Revised) "Presentation of Financial Statements, IFRIC 13 "Customer Loyalty Plans" and the revision to IAS 19 "Employee Benefits", in the framework of a project of improvements to IFRS, 2008.
For further details regarding the standards and the impact of their application to the Group's Financial Statements, see Notes 2.c, 7 and 8 to the Company's June 30 2009 Financial Statements.

To Item 3.2 – Investments in Corporate Capital – Options

Pursuant to the Company's reports, on April 30 2009 the Company's Audit Committee and Board of Directors approved the private allocation of 4,650,000 options to the Chairman of the Board of Directors, under terms detailed in the Company's May 3, May 11 and May 26 2009 Immediate Report. The option allocation and the terms of the Chairman's appointment were ratified in the General Meeting of the Company's shareholders, which was held on June 24 2009. For further details see Note 6.c to the Company's June 30 2009 Financial Statements.

To Item 3.4 – Changes in Interested Parties' Holdings

In July 2009 Phoenix Holdings Ltd. (hereinafter: "Phoenix Holdings") informed the Company that it had become an interested party in the Company as a result of accumulated holdings of Phoenix Group Members (hereinafter: "the Phoenix Group"), including the Delek Group Ltd. (hereinafter: "the Delek Group") and Excellence Investments Ltd. (hereinafter: "Excellence Investments").

As of August 16 2009, Phoenix holds 2.31% of the Company's undiluted issued capital and 2.21% of the Company's fully diluted capital. Phoenix Holdings holds Company shares through a participating insurance account as well as a provident fund and provident fund management companies.
As of August 16 2009, the Delek Group holds 3.60% of the Company's undiluted issued capital and 3.45% of the Company's fully diluted issued capital.

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[1] This update is in accordance with Regulation 39a of the Securities Regulations (Periodic and immediate reports), 1970 and includes material changes or additions which have occurred in corporate business on any matter which is to be described in the periodic report. The update refers to item numbers in Chapter A (Description of Corporate Business) in the Group's 2008 annual report.

As of August 16 2009, Excellence Investments holds 1.86% of the Company's undiluted issued capital and 1.78% of the Company's fully diluted issued capital. Excellence Investments holds Company shares through a Nostro account as well as in joint trust investment fund companies.

Note that according to an immediate report of the Phoenix Group dated July 28 2009, the Phoenix Group became an interested party in the Company in December 2007, but as a result of a technical difficulty in locating the aggregate holding rate that made the Phoenix Group an interested party, the Phoenix Group did not provide notice of this to the Company.
Note also that according to the Company's articles, holdings and/or granting holdings of Company shares at a rate of 5% or more of the Company's issued share capital shall grant no rights deriving from holding and/or purchasing, without the prior written consent of the holder of the Special State Share. To the best of the Company's knowledge, the Phoenix Group has yet to receive the approval of the holder of the Special State Share, insomuch as such approval is necessary.

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

In June 2009 IATA published an updated projection according to which global airlines were expected to lose a total of $9 billion in 2009. This estimate is significantly higher than the last IATA projection made in March 2009, according to which airline losses in 2009 will amount to $4.7 billion.

According to IATA data, the factors leading to the financial losses include the continued global financial crisis which led to a sharp drop in passenger numbers, the reduction in business traffic, a sharp drop in cargo demand and fears of "swine flu" which have created an unprecedented crisis in the international aviation industry. IATA estimates that the number of passengers will drop by 8% this year compared to last year and that cargo transport demand will drop by 17%.

In June 2009 the World Health Organization (WHO) raised the issue of the spread of the "swine flu" epidemic to Level 6 – the WHO highest level. The WHO clarified that the high level reflects the disease's spread and not necessarily its severity.

According to IATA data, June 2009 saw a 7.2% drop in international passenger traffic and a 16.5% drop in air cargo. The weighted load factor was 75.3% compared to 77.6% in June 2008. The 7.2% drop in international passenger traffic constitutes a slight improvement over the 9.3% drop listed in May 2009. The 4.3% drop in capacity in June 2009 did not keep up with the drop in demand, resulting in surplus capacity which led to increased competition between airlines, to lower prices and to damage to the airlines' profitability. According to IATA data, airline revenues in international markets dropped by 25%-30% in June 2009.

According to IATA data for the first half of 2009 (January-June), international passenger traffic decreased by 7.6% and cargo traffic decreased by 20.6%.
Despite this, this period saw a mere 3.9% decrease in seat capacity for airlines on international routes.

The weighted average load factor for this period was 72.6% compared to 75.5% in the same period last year.

The following table shows data, by regional segment, for the first half of 2009 (January-June 2009) compared to the first half of 2008, as provided by IATA:

Region	**Passengers**			**Cargo**	
	RPK[6]	**ASK[5]**	**PLF[4]**	**FTK[3]**	**[2]AFTK**
	Yearly Change	**Yearly Change**		**Yearly Change**	**Yearly Change**
Africa	-9.2%	-5.6%	69.0%	-22.5%	-19.8%
Asia	-12.0%	-7.7%	70.6%	-22.3%	-16.4%
Europe	-7.6%	-4.8%	73.5%	-21.6%	-9.4%
South America	-3.2%	1.0%	70.4%	-19.6%	-8.6%
Middle East	7.1%	12.5%	71.1%	-5.5%	11.5%
North America	-8.9%	-5.3%	76.6%	-22.2%	-9.9%
Total	**-7.6%**	**-3.9%**	**72.6%**	**-20.6%**	**-10.4%**

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

According to data provided by the Central Bureau of Statistics, the second quarter of 2009 saw 828,000 exits of Israelis via air, an 11% decrease compared to the same quarter last year. In addition, this quarter saw 538,000 tourist entrances via air (BGA and Eilat), an 11% decrease compared to the same period last year. According to the Company's estimates, the large drop in the number of exits abroad of Israeli and tourists entrances into the country derives from the international financial crisis as well as Operation "Cast Lead", which lasted from late December 2008 to mid-January 2009

This decrease in passenger traffic at BGA continued in April-June 2009, with most airlines flying to Israel listing significant drops in passenger traffic. No significant increase in the capacity of regular foreign airlines was noted at BGA in this quarter

Following the drop in demand, foreign charter airlines operating on Israeli routes reduced their activity significantly. To the best of the Company's knowledge, the foreign charter airlines reduced their seat capacity on flights to Israel by 46% and passenger traffic dropped by a similar rate compared to the same quarter last year, this primarily as a result of the reduction of the activity of foreign charter flights to Turkey, in which a sharp 48% drop in total passenger traffic was listed.

2 ATK - Available Ton Kilometer – available capacity for the transport of passengers (translated to tons) and cargo multiplied by the distance flown.
3 FTK - Freight Ton Kilometer – weight in tons of cargo (including mail) multiplied by distance flown.
4 PLF - Passenger Load Factor – flight occupancy rate.
5 ASK – Available Seat Kilometer – number of seats offered for sale multiplied by distance flown.
6 RPK – Revenue Passenger Kilometer – number of paying passengers multiplied by distance flown.

In all, a 12% decrease in international passenger traffic through BGA was listed in the second quarter of 2009, and the average load factor was 76.7%, compared to 81% in the second quarter of 2008.
It should be noted that according to the data of the Israel Airports Authority, El Al's share of passenger traffic at Ben Gurion Airport in July 2009 increased by 5.15%.

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

The quarter ending June 30 2009 saw a 57% decrease in market prices of jet fuel compared to the same quarter last year. The effective average jet fuel price paid by the Company dropped, after hedging activity, by 43.7% compared to the same quarter last year. In the reported period, fuel costs constituted 27.8% of operating revenues (in the second quarter of 2008 fuel costs constituted 38.5% of operating revenues). The following data refers to jet fuel prices in the Med region, as quoted by Platts[7]. For further details, see Items 7.1, 7.2 and 7.3 of the Board of Directors Report.
As of June 30 2009 the Company held an inventory of jet fuel purchased from suppliers in Israel and abroad worth $8.3 million.

To 6.4 – Fluctuations in Foreign Currency Rates
As of June 30 2009, the exchange rate of the NIS vs. the U.S.Dollar was devaluated by 16.9% relative to June 30 2008, and by 3.1% relative to December 31 2008.

As of June 30 2009, the exchange rate of the U.S. dollar vs. the euro was revaluated by 11.6%, relative to June 30 2008, and devaluated by 1.3% relative to December 31 2008. For further details, see Sections 7.1, 7.2 and 7.5 of the Board of Directors Report.

To item 6.5 – Interest Rate Fluctuations
The average 3-month Libor rate dropped by 69.3% in the quarter ending June 30 2009 compared to the fourth quarter of 2008, and 69.1% compared to the same quarter last year. For further details see Items 7.1, 7.2 and 7.5 of the Board of Directors Report.

1. Passenger Aircraft Activity

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

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

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7 To the best of the Company's knowledge, Platts is a member of the McGraw-Hill Group which has provided information on the energy industry for over 75 years. The company provides information and up-to-date analyses, among other things, on international prices and events pertaining to the petroleum, petrochemical, natural gas and electric and nuclear power markets.

Switzerland - a new aviation agreement was signed between Israel and Switzerland in June 2009. According to the new agreement, each party may appoint two scheduled airlines to operate passenger aircraft for each destination between Israel and Switzerland. In addition, the agreement allows each country to operate 24 scheduled weekly flights, compared to 17 currently. Israir announced that it intends to operate scheduled flights to Switzerland in light of the Civil Aviation Authority's recommendation to appoint it second designated carrier for this country.

Brazil - a new aviation agreement was signed in June 2009 between Israel and Brazil. The agreement was signed and passed on to the governments for ratification and signature. The new agreement came into effect immediately. The agreement states that no restriction shall exist on the number of designated carriers and types of aircraft and the number of weekly frequencies was established, along with an agreement on Fifth Freedom rights and the option of holding charter flights.

Germany - following the new aviation agreement signed between Israel and Germany in January 2009, German airline Lufthansa has begun operating 4 weekly flights to Munich starting April 2009. Air Berlin began operating two weekly flights on the Tel Aviv-Berlin route in July 2009, and Israir began operating three scheduled weekly flights on the Tel Aviv-Berlin route and one weekly flight on the Tel Aviv-Stuttgart route, following Israir appointment as designated carrier for these routes.

In July 2009, U.S. Airways began operating scheduled flights on the Tel Aviv-Philadelphia route.

British low cost airline EasyJet announced that it would begin flights to Israel starting November 2 2009. EasyJet announced that it intends to operate 6 weekly flights to Israel between Luton near London and BGA. In addition, EasyJet also announced that it intends to operate flights between Switzerland and Israel, as it already operates out of this region.

The Company discontinued flights between BGA and Eilat starting August 1 2009 as a result of the financial crisis and the drop in tourism to Israel, including Eilat. The Group will continue operating charter flights from Europe to Eilat based on its economic considerations. For details regarding the Company's requests to be appointed designated carrier to Eilat see updates to Section 9.11.10 below.

Due to its failure to secure approval from Russian authorities for the operation of flights to Rostov and Sochi, Sun D'Or, which was appointed designated carrier to these destinations, has not begun operating flights.

The Company's code sharing agreement with SN Brussels for the Tel Aviv-Brussels line is expected to conclude in October 2009.

In all, in this quarter foreign company capacity increased by 2% and passengers decreased by 5% compared to the second quarter of 2008.

Over the course of the second quarter of 2009, a 12% decrease was listed in all traffic at BGA, with scheduled traffic through BGA dropping 4%, and charter traffic (both Israeli and foreign) decreasing by 38% compared to the second quarter of 2008.

Passenger traffic was divided between the various airlines as follows: El Al and Sun D'Or – 38.0%; other scheduled airlines – 48.7%; charter airlines – 13.3%.

Western European Routes

Western European routes saw a 6% decrease in passenger traffic in the second quarter of 2009. Among scheduled foreign airlines, passenger traffic decreased by 3%, while seat capacity increased by 4%. Note that routes to Western Europe saw a significant decrease in foreign and Israeli charter traffic. The second quarter of 2009 saw a 38% decrease in charter activity on these routes.

This quarter saw no significant change in the Group's seat capacity (+2%) and passenger traffic (-1%).. The Group's average load factor was 79.3% and its share of total passenger traffic in this route network was 38.5%.

Routes to Central and Eastern Europe

In the second quarter of 2009, Central and Easter European routes listed a 15% drop in total passenger traffic.

Routes to Central and Eastern Europe listed a 3% decrease in the seat capacity of scheduled foreign airlines and a 12% decrease in passenger traffic.

As a result of the incompatibility between supply (seat capacity) and the drop in demand, the average load factor of the scheduled foreign airlines dropped to 62.3% compared to 72.8% in the second quarter of 2008.

The charter airlines, with the exception of Sun D'Or which increased its activity on these routes, significantly reduced their activity on these routes and listed a 36% decrease in passenger traffic.

The Group increased its seat capacity in this route network by 17% and listed a mere 5% increase in passenger traffic on these routes. The Company's market share on these routes reached 34.9% and its load factor dropped to 71.5% compared to 80.1% in the second quarter of 2008.

Routes to the CIS

In all, regular airlines increased their capacity on these routes by 6% and their passenger traffic increased by 3% compared to the same quarter last year. Foreign charter airlines operating on these routes significantly reduced their seat capacity (-59%) and their passenger traffic dropped steeply (-67%). During this period, the Group reduced the number of seats offered in this route network by 11% compared to the comparable period last year. This quarter saw no material difference in total passenger traffic (-1%) and seat capacity (-1%) on this route network. The Group's share of passenger traffic on these routes was 34.6%.

Transatlantic Routes

A 13% decrease in passenger traffic on transatlantic routes was listed in the second quarter of 2009 A significant drop in passenger traffic (-29%) was listed on the route to Canada, as a result of a significant reduction in the activity of Air Canada, which reduced its seat capacity on this route by 43%, and accordingly, listed a similar drop in passenger traffic.

On its routes to the U.S., the Company reduced its seat capacity by 12%, among other things as a result of the discontinuation of its activities on the Miami route starting September 2008, with Company passenger traffic dropping accordingly (-12%).

In July 2009 US Airways began operating daily flights on the Tel Aviv-Philadelphia route.

Far East Routes
A slight increase of 2% occurred in passenger traffic on these routes in April-June 2009 while at the same time, seat capacity in this route network increased by 18%, this as a result of the activity of Korean Air on the Tel Aviv-Seoul route starting September 2008. The Company did not change its seat capacity on Far East routes and listed an 8% drop in passenger traffic.

Regional Network
A 34% drop in passenger traffic was listed in this route network. The most significant drop (-48%) was listed in passenger traffic to Turkey, this in light of tensions between Israel and Turkey, following the hostilities in Southern Israel in early 2009,
The Group's share of this route network is only 11.8%.

To Item 7.1.5 Technological Changes that May have a Material Impact on the Field of Activities and 7.4 – New Products

A number of new products and services have been put into service in the Company's systems and on its website, which allow the expansion of the "self service" capability of Company customers as well as the improvement of the quality and duration of the service provided at the Company's service center, including the selling of tourist packages and ground services as well as pre-ordering of duty-free products.

The Company is currently acting to implement a certification process for the PCI Level 2 Standard which defines credit data security requirements for Company IT systems.

To Item 7.4 – New Services

In July 2009 the Company initiated a new pilot program testing the operation of the Economy Basic Class on its flights to European destinations, in which 10%-15% of the seats will be allocated to this class. Ticket prices in this class shall be lower than in other classes, and passengers will be asked to pay extra for services provided, including food and drinks, entertainment, luggage, arranged seating and so on. The experiment's success shall determine whether to expand the program and operate Economy Basic classes for other Company destinations.

The Company is considering operating a service at the King David Lounge at Ben Gurion Airport, which will provide information on cultural, musical, sports and other events occurring around the world, matching the destinations of the passengers in the lounge, to offer the passengers tickets for these events.

In June 2009 the Company signed a code sharing agreement with Air China. This is a free sale agreement (free seat purchasing of one airline from the other, with no fixed quota). Implementation of the agreement is subject to ratification and accordingly, a request has been submitted to the Minister of Transportation and the Antitrust commissioner

To Item 7.10 – Manufacturing Ability

The Company reduced its ASK by 2% in the second quarter of 2009 and the Company's RPK dropped by 6.2%. As a result, a 4.3% decrease was listed in its weighted load factor to 77.6%, compared to 81.1% in the same quarter last year.

To Item 7.11 – Aircraft Fleet in the Passenger Aircraft Field

Following the Company's reports regarding the agreement to purchase three new Boeing 737-800 aircraft, on June 22 2009 the third aircraft was handed over to the Company (hereinafter: "the Third Aircraft). To complete the transaction and finance the purchase, the Company received, for the third aircraft as well, the approval of the Export-Import Bank of the United States (here: "the Bank") for $38 million, this in return for a lien placed on the Third Aircraft.

Following that stated in the 2008 Periodic Report regarding the agreement with Boeing to purchase 4 Boeing 777 aircraft, the Company's is studying various financing methods for this transaction, including leases.

2. Cargo Aircraft Activity

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

Pursuant to Item 8.1.1 of the Periodic Report, according to the Company's estimates, the Group's share of cargo transport in April-June 2009 of all cargo shipped to and from Israel by air (including cargo carried in the holds of passenger aircraft, including mail activity but not including Sixth Freedom) amounted to 32.2%, this in comparison with 32.8% in the same quarter last year.

To Item 8.1.3 – Legislative Restrictions, Standards and Special Constraints Applying to the Field of Activity

In July 2009 the Company approached the Government Companies Authority with a request for the consent of the holder of the Special State Share, as required by the Company's articles, to remove two 747-200 aircraft from Company service, this in light of the Company's intention not to operate these aircraft past the end of 2009, among other reasons, due to age and maintenance restrictions.

As reported by the Company, it intends to continue its freight activities in the cargo holds of passenger aircraft and designated cargo aircraft, while studying various options for further operation of the Company's cargo activity. The Company established a Board of Directors' committee to study the issue of the Company's freight activity.

Note that in June 2009 the Minister of Transportation and Traffic Safety established a public commission to study the Israeli transport industry and the state of Israeli airlines dealing in cargo shipping. The Company's representatives have appeared before the commission.

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

According to IATA reports, in January-June 2009, international transportation of cargo in cargo aircraft dropped 20.6% compared to the same period last year, meaning a decrease in activity at a higher rate than the projected yearly rate according to IATA estimates (-5.0%). It is impossible to estimate whether this information changes expectations regarding total annual growth in 2009.

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

Airport Authority data indicates that in January-June 2009, cargo traffic through BGA dropped 26% relative to the same period last year.

To Item 8.1.5 – Technological Changes that may have a Material Impact on the Field of Activity

In the second half of 2009, a new system was entered into service for the management of transactions allowing a more appropriate management of cargo transactions and the activity in the online ordering system was expanded.

To Item 8.7 – Competition

Starting March 2009, Korean Airlines stopped operating scheduled cargo flights, and it continues to transport cargo in three flight rotations per week on passenger aircraft. Cargo aircraft will be operated ad hoc according to demand.

3. Information on Both Fields of Activity

To Item 9.2 – Insurance

Regarding the insurance policies purchased for Knafaim, Knafaim announced that the third party liability appendix policy for maintenance activity, which was including in the Company's policies, should not be renewed

To Item 9.4.2 – Employees

Pursuant to Item 9.4.2 of the Periodic Report, the following is an updated table on the Company's employees:

	June 30 2009	June 30 2008
Permanent employees	3,770	3,787
Temporary employees	2,170	2,383
Total employees	**5,940**	**6,170**

To Item 9.4.7 – Special Collective Agreements

On July 29 2009, the Company's offices received notice from the New Histadrut [workers' union] – the Professional Union Department ("the Histadrut"), on the basis of the Work Dispute Resolution Law, 1957, according to which the Histadrut has the right to declare a strike starting August 12 2009.

On August 4 2009 the representatives of the Company, the Histadrut and the Company's employees representatives announced that they would be freezing the work dispute, as declared by the Histadrut, this concurrent with the Company's agreement to freeze various moves related to work relationships it took recently. In addition, it was agreed that intensive negotiations would be held between Company Management, the employees' representatives and the Histadrut management to create a shared streamlining plan benefiting both the Company and its employees.

To Item 9.4.16 – Executives and Senior Management

On June 1 2009 Mr. Gil Bar began serving as Company Internal Auditor.

On June 24 2009, the General Meeting of the Company's shareholders (hereinafter: "the General Meeting") ratified the appointment of Mr. Pinchas Ginsburg and Mr. Shlomo Hannael as directors on the Company's Board of Directors; in addition, the General Meeting approved the revision of the Company's Articles of Association in such a manner that the maximum number of directors after the revision is fifteen directors instead of twelve. Note that only thirteen directors currently serve on the Company's Board of Directors.

Over the course of the second quarter of 2009 the administrative staff of the Company's cargo activity was reduced with the termination of the employment of the VP of Cargo. In addition, over the course of the second quarter of 2009 the position of Head of Organization and Methods Branch was reduced.

To Item 9.8.3 – Credit Frameworks

Non-guaranteed credit frameworks amounted to $35 million as of June 30 2009, a sum similar to the frameworks at the Company's disposal on December 31 2008. These frameworks may be used for any purpose.

To Item 9.8.4 Guarantees Against Collateral

With the drop in jet fuel prices, from a peak of $145 per barrel (in summer 2008) to $33 per barrel (in the fourth quarter of 2008), the Company was required to provide collateral to guarantee its upholding hedging refunds to which it was obligated in accordance with its agreements with hedging institutions, As of June 30 2009, the total collateral requirement amounted to $82 million, and in addition, the hedging institutions provided non-guaranteed frameworks to the amount of $24 million. The Company placed liens on assets (aircraft and deposits) to the required extent for banks in Israel and abroad.

To Item 9.8.5 – Loans for Unique Use

As of June 2009, the balance of loans from banking corporations, including short term borrowings, amounted to $874.4 million.

To Item 9.10.3 – the Environment – Airport Noise Ordinances

Following the EU decision regarding the implementation of the ETS (Emission Trading Scheme), in which the airlines will be required to supervise and report on fuel burned and CO_2 created, the Company is continuing its preparations for the plan's implementation.

To Item 9.10.4 – Waste Treatment

The construction of the Airport Authority's main waste treatment facility was completed in June 2009.

To Item 9.11.2.(i) – Restrictions and Supervision of the Corporation's Business – the Restriction of Business Law, 1998

Pursuant to that stated in the update to the periodic report for the first quarter of 2009, according to which the Company submitted to the Restriction of Business Commissioner requests for exemption from the approval of a binding arrangement for aviation arrangements between the Company and other foreign air carriers as regards various Company agreements, the antitrust commissioner has yet to provided his consent for the agreements in question.

To Item 9.11.10 –legislation.

Pursuant to that stated in the Periodic Report regarding the submittal of a request to appoint the Company as a designated carrier for flights to Eilat, the Company's representatives appeared before the Civil Aviation Authority and presented the Company's request and the arguments in favor of granting this appointment.

In June 2009 the Ministry of Transportation published a draft of the Aviation Bill, 2009 which is expected to replace, if passed, the 1927 Aviation law and the King's Ruling on Aviation in the Colonies (laws), 1937. The draft includes reference to various issues the Civil Aviation Authority was asked to include in legislation, this pursuant to the review held by the U.S. Federal Aviation Authority (FAA), in order to meet international standards dictated by the International Civil Aviation Organization (ICAO).

Lately the Civil Aviation Authority has begun studying the compliance of subsidiary Sun D'Or with the Aviation Law and related regulations. The CAA insists that a number of executives act exclusively as full time Sun D'Or employees, and not be loaned from the Company. In addition, the CAA requests that Sun D'Or must have its own manuals and not rely on manuals from the Company. Talks are being held between Sun D'Or, the Company and the CAA to study the issue and its implications.

To Item 9.11.12 – Limitations and Supervision of the Corporation's Business – Security Arrangements

Pursuant to that stated in the Periodic Report and in the update to the first quarterly periodic report of 2009, pursuant to the approval of the 2009 national budget, the State's participation in the security costs of Israeli airlines, including the Company, was increased to 60%, this in accordance with Government Resolution no. 4462 dated February 1 2009. For further details, see Note 3 to the Company's June 30 2009 Financial Statements.

To Item 9.14 – Legal Proceedings

Pursuant to the Company's reports regarding the motion filed against the Company in April 2009 to recognize the suit as a class action, claiming that the Company failed to meet the requirements of Revision 40 to the Communications Law (Telecommunications and Broadcasts), 2008, known as the Spam Law, note that in August 2009 a motion to dismiss was filed to the Court by the claimant as well as a motion to dismiss his personal claim against the Company. The Court has yet to approve the above motions.

El Al Israel Airlines Ltd.
Report of the Board of Directors on the State of the Corporation's Affairs
For the Period Ended June 30, 2009

We hereby present the Report of the Board of Directors on the State of the Corporation's Affairs for the period ending June 30, 2009. The second quarter of 2009 saw the global financial crisis continue, which led to a sharp decrease in air passenger traffic, a reduction in business traffic and a sharp decrease in cargo transport demand.

Ben Gurion Airport listed a 12.2% drop in international passenger traffic in the second quarter of 2009 and the average load factor was 75.2% compared to 79.5% in the second quarter of 2008. In addition, cargo traffic in BGA decreased by 26% compared to the same quarter last year. In spite of the significant drop in the number of passengers' aircraft in the second quarter of 2009, foreign airlines continued to increase their seat capacity in BGA by 2% compared to the same quarter last year. The Company succeeded in increasing its market share at Ben Gurion Airport to 38.0% compared to 34.6% in the same quarter last year, a 10% increase, this without added capacity.

In the second quarter of 2009, jet fuel prices decreased in comparison to the same quarter last year, which along with the global financial crisis, intensifying competition, and the weakening of the dollar compared to other currencies, led to a 21% decrease in the average price per flight segment and a total drop of 26% in the Company's passenger revenues.

The Company concluded the three months ending June 30 2009 with a loss of $19.7 million, compared to a $12.8 million loss in the same period last year.

Gross profit in the second quarter of 2009 amounted to $46.3 million, 11.6% of operating revenues, with gross profit amounting to $70.4 million in the same quarter last year, 12.6% of operating revenues.

The Company's cash flow from operating activity in the second quarter of 2009 amounted to $41.1 million, and the Company invested $138.2 million in fixed assets, of which $125.3 million was for the purchase of new aircraft.

The Company added three new 737-800 aircraft to its fleet in the period in question, purchased from the Boeing Corporation, and inaugurated its new San Paolo line, the first direct flight between Israel and South America.

The Group's cash balance and short term deposits amounted to $162.8 million as of June 30 2009, and in addition, as of June 30 2009 the Company had $38.3 million in restricted deposits in favor of jet fuel hedging institutions.

Shareholders' equity as of June 30 2009 amounted to $108.2 million, compared to $118.7 million on December 31 2008.

1. General

1.1 Changes to IFRS

Starting from the first quarter of 2009, the Company has applied in its financial statements, retroactively, changes in accounting policy deriving from the application of new standards and interpretations of International Financial Reporting Standards (IFRS), which came into effect on the date of the financial statements, including IFRS 8 "Operating Segments", IAS 1 (Revised) - "Presentation of Financial Statements", IFRIC 13 - "Customer Loyalty Programs" and the revision to IAS 19 - "Employee Benefits", in the framework of the IFRS improvements, 2008.

For further details on the standards and the impact of their application to the Group's Financial Statements, see Notes 2.c, 7 and 8 to the Financial Statements.

1.2 The Company and its Business Environment

The Company serves as the designated air carrier of the State of Israel on most of the international routes operating to and from Israel.

The key activities of the Company and its subsidiaries are the transport of passengers and freight, including baggage and mail, through scheduled flights, and regarding the transport of passengers, also on charter flights between Israel and overseas. The Company is also engaged in providing security services and maintenance services, including for other airlines at Ben Gurion Airport, in the sale of duty-free products, in the leasing of aircraft, and through investees – in ancillary activities, mainly the manufacture and supply of airline food and the management of several overseas travel agencies.

The business environment in which the Company operates is the international civil aviation industry, and inbound and outbound tourism, which is characterized by a seasonal nature and strong competition, which is grows stronger in periods of over-capacity, as well as high levels of sensitivity to the economic, political and security situation in Israel and around the world.

In the field of passenger transport, the Company competes in its flights to and from Israel with 2 Israeli airlines (Arkia and Israir) and some 50 foreign airlines that operate scheduled flights and with over 20 foreign charter companies, operating continual flights out of BGA in the first half of 2009.

In the field of cargo transport, the Company competes with seven airlines operating cargo planes, and with most of the scheduled airlines that operate passenger planes that carry cargo in their belly.

The Group has two operating sectors reported as operating segments in the Company's consolidated Financial Statements:

A) **Air transport in passenger planes –** In this segment, the Group transports passengers, as well as freight (including mail and baggage) in the belly of passenger planes, and provides ancillary services, such as the sale of duty-free products and the leasing of passenger planes. The revenues of this segment constituted 91% of the Group's total revenues in the second quarter of 2009.

B) **Air transport in cargo planes –** In this segment, the Group transports cargo in cargo planes. Revenues of this segment constituted 3% of the Group's total revenues in the second quarter of 2009.

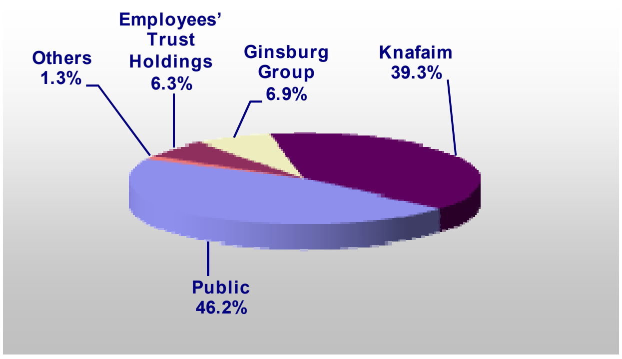
The Group has additional revenues that are not allocated to the major segments, accounting for 6% of total revenues. For further information on the Company's fields of activity, see Paragraph 3.5 of the Report of the Board of Directors and Note 7 to the Financial Statements.

1.3 Holdings of Company Shareholders

As of June 30, 2009, the holdings in the Company were:

Knafaim Holdings Ltd. ("Knafaim") – 39.3%, Ginsburg Group – 6.9%, a Company employee corporation called "Holdings in Trust of El Al Employees Ltd." ("Employees Corporation") – 6.3%, others – 1.3%, the public – 46.2%.

Ratio of Holdings In Company Shares on June 30, 2009 (undiluted):



2. Financial Position (Consolidated Financial Statements)

	30.06.2009 in thousands US dollars	31.12.2008 * in thousands US dollars	change in thousands US dollars	%
Assets				
Cash and short-term deposits	162,788	58,421	104,367	179%
Restricted deposits	38,291	152,969	(114,678)	(75%)
Trade receivables	139,308	106,046	33,262	31%
Other receivables	26,772	19,693	7,079	36%
Derivative Financial instruments	-	174	(174)	
Prepaid expenses	37,097	27,692	9,405	34%
Inventories	16,921	11,472	5,449	47%
Long-term bank deposits	1,921	2,189	(268)	(12%)
Investment in affiliated companies	2,772	2,736	36	1%
Investments in another company	1,563	1,565	(2)	(0%)
Fixed assets, net	1,368,045	1,314,182	53,863	4%
Intangible assets, net	8,737	8,618	119	1%
Assets due to employee benefits	33,978	36,777	(2,799)	(8%)
	1,838,193	**1,742,534**	**95,659**	**5%**
Equity & liabilities				
Short-term borrowings and current maturities	109,546	86,271	23,275	27%
Trade payables	150,653	134,190	16,463	12%
Other payables	68,447	44,741	23,706	53%
Current provisions	57,661	57,049	612	1%
Current derivative financial instruments	76,898	108,072	(31,174)	(29%)
Current employee benefit obligations	82,887	87,930	(5,043)	(6%)
Current unearned revenue	276,679	197,911	78,768	40%
Long-term loans from financial institutions	750,380	678,657	71,723	11%
Long-term employee benefit obligations	67,199	76,226	(9,027)	(12%)
Long-term derivative financial instruments	31,733	86,789	(55,056)	(63%)
Long-term Provisions	8,927	11,728	(2,801)	(24%)
Deferred tax	1,532	1,872	(340)	(18%)
Long-term unearned revenue	47,424	52,434	(5,010)	(10%)
Shareholders' equity	108,227	118,664	(10,437)	(9%)
	1,838,193	**1,742,534**	**95,659**	**5%**

(*) Retroactive implementation of changes in accounting policy - see Note 8 to the Financial Statements.

2.1 The main changes in asset, liability and shareholders' equity items as of June 30, 2009 compared to December 31, 2008 are:

- An increase in the balance of cash, cash equivalents and short-term deposits, due mainly from the realization of restricted deposits, from the receipt of bank loans for the financing of 3 new 737-800 aircraft, from cash from operating activity and from the proceeds from the sale and lease back of 2 757 aircraft, offset in part by the investment in the purchase of the three new aircraft and other fixed assets and repayment of long term loans. For further details, see 5 below.

- A decrease in total restricted deposits deposited in favor of jet fuel hedgers, mainly as a result of redemptions occurring in the reported period and of increases in the fair value of transactions remaining open as of the balance sheet date.
- The increase in trade receivables, derived mainly from the seasonal increase in passenger sales leading up to the summer holiday period, while a decrease in cargo sales resulted from a decrease in activity.
- The following changes occurred to the Company's derivative financial instruments:

  The fair value of jet fuel hedging increased by $86.1 million compared to their fair value at the end of 2008, as a result of transactions reaching redemption in the reported quarter and an increase in fair value of transactions still open as of the balance sheet date. The net increase in fair value of derivative financial instruments, was expressed in the $48.9 million increase in capital reserve in respect of cash flow hedging recognized directly in equity (net after tax), in the $17.1 million increase in deferred tax liabilities and the $20.1 million decrease in fuel and financing expense items in the Statement of Operations

  For further details, see Items 7.3 and 7.4 of the Board of Directors' Report.
- Prepaid expenses increased, mainly as a result of increases in prepaid commissions, as a result of seasonal increases from passenger sales in the reported period, as well as prepaid leasing expenses for the 757 aircraft sold and leased back in the reported period.
- The increase in inventories largely derived from the increase in jet fuel reserves held by the Company as of June 30 2009.
- Increase in fixed assets, due mainly to the purchase of 3 new 737-800 aircraft and from investments in fixed assets and engine overhaul, offset by depreciation costs and parts and accessories consumption in the reported period, and the sale and lease back of 2 757 aircraft.
- Assets due to employee benefits decreased mainly as a result of the devaluation of the NIS compared to the dollar in the reported period, which reduced the value of the assets in dollar terms.
- An increase in short-term borrowings and current maturities, mainly due to the use of a short-term credit framework from Israeli banks, as well as current maturities from loans received in the second quarter of 2009 for the financing of 3 new 737-800 aircraft.

- An increase in the balance of trade payables, deriving primarily from a seasonal increase in activity.
- An increase in other payables primarily as a result of airport taxes payable as well as unearned revenues received from customers for future flights.
- Current and long-term employee benefit obligations dropped primarily due to the devaluation of the NIS vs. the USD in the reported period which reduced NIS liabilities in dollar terms, as well as from current payments for early retirement plans.
- Unearned revenues increased due to the seasonal increase in passenger sales.
- The balance of long-term bank loans increased as a result of the receipt of loans from the EXIM Bank for the purchase of 3 737-800 aircraft received in the reported period, offset by the current repayment of loans.
- Long term provisions decreased due to a payment made in the reported period to the U.S. Justice Department pertaining to a claim related to the field of cargo transport.
- Long-term unearned revenues decreased as a result of a decrease in frequent flyer club obligations, as a result of a surplus of use over accrual of frequent flyer points.
- The decrease in the Company's shareholders' equity, primarily due to the loss in the reported period, offset in part by the increase in capital reserves in respect of cash flow hedging as a result of the increase in the fair value of financial transactions, charged as hedging agreements.

As of June, 2009, the Company has a working capital deficit of $401.6 million, compared with a deficit of $339.7 million on December 31, 2008. The increase in the working capital deficit is primarily due to the decrease in restricted cash and the increase in unearned revenues, trade and other payables and short term borrowings, which are partially offset primarily by the increase in cash and short term deposit items, liabilities in respect of financial instruments and trade receivables.

The working capital deficit is due to the Company's current liabilities, which contain two significant elements: unearned revenues from the sale of airline tickets and the obligation to Customer Loyalty Programs and the current maturities of long-term loans. These elements, which are characterized by a cyclical nature, are included in current liabilities, and essentially explain most of the working capital deficit.

3. Analysis of Operating Business Results of El Al

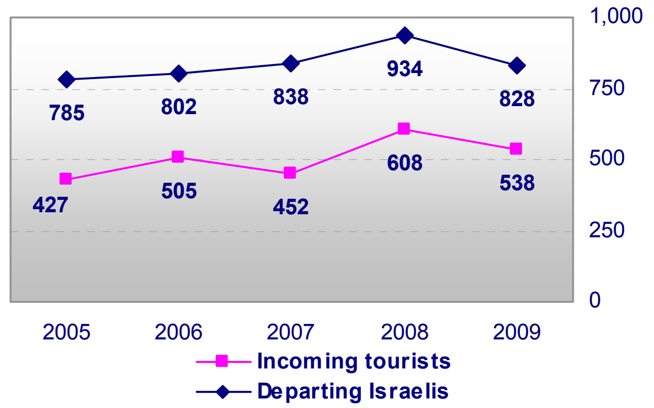
3.1 Market Data

Passenger and cargo traffic at BGA	Apr - Jun 2009 in thousands	Apr - Jun 2008 in thousands	change in thousands	%
Incoming tourists *	538	608	(70)	(11%)
Departing Israelis *	828	934	(106)	(11%)
Cargo import - tons **	26	35	(9)	(26%)
Cargo export - tons **	36	48	(12)	(25%)
Passenger and cargo traffic at BGA	**Jan -Jun 2009 in thousands**	**Jan -Jun 2008 in thousands**	**change in thousands**	**%**
Incoming tourists *	915	1,065	(150)	(14%)
Departing Israelis *	1,377	1,561	(184)	(12%)
Cargo import - tons **	55	74	(19)	(26%)
Cargo export - tons **	76	103	(27)	(26%)

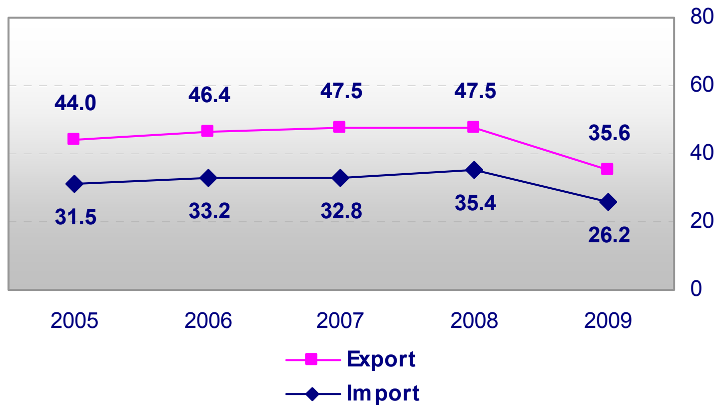
* Source: Central Bureau of Statistics.

** Does not include cargo in transit.

Incoming Tourist & Departing Israeli Traffic, in the second quarter of the following years: (In thousands)



Imports & Exports of Cargo by Air, to and from Israel, in the second quarter of the following years (in thousands of tons):



3.2 Company Operating Data

	Apr - Jun 2009	Apr - Jun 2008	change
Passenger leg (scheduled and chartered) - in thousands	952	987	(4%)
RPK (scheduled) - in millions	4,155	4,430	(6%)
ASK (scheduled) - in millions	5,352	5,463	(2%)
Load factor (scheduled)	77.6%	81.1%	(4%)
The Company's market share (scheduled and chartered)	38.0%	34.6%	10%
Flown cargo, in thousand tons	20	28	(28%)
RTK - in millions	97	142	(31%)
Weighted flying hours (including leased equipment) - in thousands (*)	40.2	42.9	(6%)
Average man-years (El AL only):			
Permanent	3,782	3,790	(0%)
Temporary	2,098	2,410	(13%)
Total	5,880	6,200	(5%)

	Jan -Jun 2009	Jan -Jun 2008	change
Passenger leg (scheduled and chartered) - in thousands	1,698	1,844	(8%)
RPK (scheduled) - in millions	7,578	8,350	(9%)
ASK (scheduled) - in millions	9,693	10,325	(6%)
Load factor (scheduled)	78.2%	80.9%	(3%)
The Company's market share (scheduled and chartered)	40.0%	37.8%	6%
Flown cargo, in thousand tons	44	64	(31%)
RTK - in millions	211	341	(38%)
Weighted flying hours (including leased equipment) - in thousands (*)	74.9	84.1	(11%)
Average man-years (El AL only):			
Permanent	3,786	3,741	1%
Temporary	1,985	2,346	(15%)
Total	5,770	6,087	(5%)
Aircraft in operation - end of period - number of units	38	36	2
Average age of owned fleet at the end of the period - in years	12.6	15.3	(2.7)

Glossary:

Passenger leg – Flight coupon in one direction.

RPK – Revenue Passenger Kilometer – number of paying passengers multiplied by distance flown.

ASK – Available Seat Kilometer – number of seats offered for sale multiplied by distance flown.

RTK – Revenue Ton Kilometer – weight of paid flown cargo in tons multiplied by distance flown.

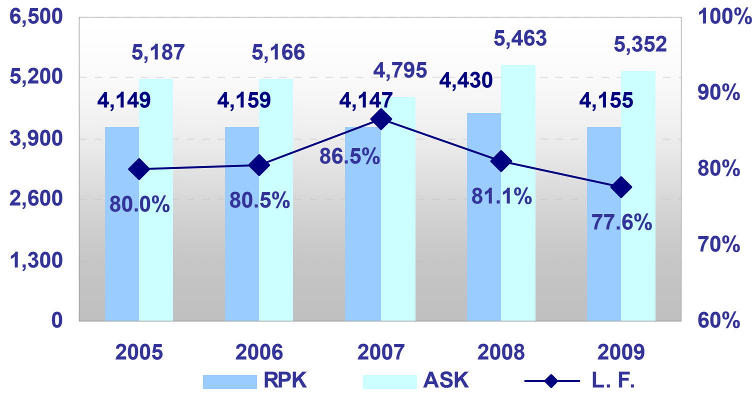
Passenger Load Factor (occupancy) – flown passenger-km is expressed as a percentage of available seat-km.

* Weighted flight hours in terms of Boeing 767/757.

Weighted value of the planes: Boeing 767/757 = 1.0; Boeing 747 = 2.0; Boeing 777 = 1.6; Boeing 737 = 0.6.

These weighted values were determined based on an estimate of the total expenses of each type of aircraft, and are used consistently to calculate weighted flight hours as an indicator of the volume of aviation activity.

Operating data, in the second quarter for the years (in Millions):



3.3 Statement of Operations Data

For the three month period ended June 30, 2009 (Consolidated Financial Statements):

	Apr - Jun 2009		Apr - Jun 2008		change	
	in thousands US dollars	% of operating revenues	in thousands US dollars	% of operating revenues	in thousands US dollars	%
Operating revenues	399,432	100%	557,456	100%	(158,024)	(28%)
Operating expenses	(353,107)	(88.4%)	(487,048)	(87.4%)	133,941	(28%)
Gross profit	46,325	11.6%	70,408	12.6%	(24,083)	(34%)
Selling expenses	(47,629)	(11.9%)	(61,117)	(11.0%)	13,488	(22%)
General and administrative expenses	(21,783)	(5.5%)	(26,329)	(4.7%)	4,546	(17%)
Other operating expenses,net	(1,373)	(0.3%)	(2,740)	(0.5%)	1,367	(50%)
Operating loss before financing	(24,460)	(6.1%)	(19,778)	(3.5%)	(4,682)	24%
Financing expenses	(10,056)	(2.5%)	(13,328)	(2.4%)	3,272	(25%)
Financing income	2,958	0.7%	16,455	3.0%	(13,497)	(82%)
Company's equity in earnings of affiliates, net	37	0.0%	42	0.0%	(5)	(12%)
Loss before income taxes	(31,521)	(7.9%)	(16,609)	(3.0%)	(14,912)	90%
Tax benefit	11,777	2.9%	3,851	0.7%	7,926	206%
Loss for the period	**(19,744)**	(4.9%)	**(12,758)**	(2.3%)	(6,986)	55%

(*) Retroactive implementation of changes in accounting policy - see Note 8 to the Financial Statements

The key factors that influenced the business results in the three month period ended June, 2009 compared with the same period last year:

- The decrease in operating revenues is due mainly to the decrease in passenger revenues, which is due to the decrease in the number of passengers relative to the second quarter of 2008, a decrease in average revenue per passenger kilometer, as well as from the strengthening of the USD compared to other currencies. Cargo transport revenues also decreased compared to the same quarter last year, primarily as a result of the global slump in air cargo shipping.
- The second quarter of 2009 saw a decrease in the Company's operating expenses relative to the same period last year, primarily due to a decrease in jet fuel expenses and a decrease in salary expenses as detailed below as well as the decrease in activity.
- Salary costs in the second quarter of 2009 decreased relative to the comparable period last year, primarily as a result of the devaluation on the average NIS exchange rate relative to the USD of 19% relative to the comparable quarter last year, which let to a decrease in NIS salary expenses in dollar terms and a 5%

decrease in average man-years. Regarding the impact of the changes in the exchange rate of the NIS vs. the USD on the Company's liabilities due to employee benefits, see note 3.4 below.

- The Company's expenses for jet fuel dropped from $214.4 million in the second quarter of 2008 to $111.2 million in the reported period, after hedging payments totaling $31.1 million in the second quarter of 2009 (compared with hedging returns of $22.0 million received in the comparable quarter last year). The fair value of jet fuel hedging transactions not classified as hedging agreements increased by $14.0 million in the reported period, which reduced fuel expenses (compared to a fair value decrease of $7.7 million in the same quarter last year).

  In all, the second quarter of 2009 saw an 44% decrease in Company's effective jet fuel prices compared to the same quarter last year. In addition, jet fuel expenses also dropped as a result of the decrease in flight hours in the reported period compared to the same period last year.

  As for jet fuel hedging, see 7.3 below.

- Selling expenses decreased compared to the same quarter last year, mainly as a result of the decrease in distribution expenses, this as a result of the decrease in passenger and cargo revenues as well as the increase in direct Company sales through its call center and the internet. In addition, salary expenses decreased, as described above.

- General and administrative expenses decreased compared with the same quarter last year primarily due to the decrease in salary expenses.

- The Company listed other net expenses to the amount of $1.4 million, net, in the account period ($2.7 million in expenses in the comparable quarter last year) primarily as a result of the influence of the devaluation of the NIS relative to the USD on early retirement plan obligations, offset by capital gains from the sale of fixed assets.

- The decrease in financing costs in the second quarter of 2009 relative to the same period last year derived primarily from the decrease in interest expenses on Company loans as a result of the drop in LIBOR rates, and a decrease in exchange rate compared to the second quarter of 2008.

- Financing revenues decreased primarily as a result of the decrease in interest hedging revenues relative to the comparable quarter last year as well as the decrease in interest revenue from Company deposits as a result of the drop in

LIBOR rates and drop in deposits in the reported quarter relative to the same period last year. The Company had no foreign currency rate hedging agreements in the reported quarter, while an income of $5.5 million was listed from these transactions in the second quarter of 2008. As for interest rate hedging and exchange rates, see 7.4 and 7.5 below.

- Tax benefits increased as a result of the pre-tax loss relative to the comparable period last year, and in addition, an additional tax benefit was listed in this quarter from the use of tax assets created for the Company in the first quarter of 2009.

Statement of Operations Data

For the six month period ending June 30 2009 (consolidated statements):

	Jan -Jun 2009		Jan -Jun 2008		change	
	in thousands US dollars	% of operating revenues	in thousands US dollars	% of operating revenues	in thousands US dollars	%
Operating revenues	746,099	100%	1,026,710	100%	(280,611)	(27%)
Operating expenses	681,041	91.3%	902,762	87.9%	(221,721)	(25%)
Gross profit	65,058	8.7%	123,948	12.1%	(58,890)	(48%)
Selling expenses	89,034	11.9%	115,661	11.3%	(26,627)	(23%)
General and administrative expenses	43,131	5.8%	51,322	5.0%	(8,191)	(16%)
Other operating expenses (revenues),net	(161)	(0.0%)	24,114	2.3%	(24,275)	(101%)
Operating loss before financing	(66,946)	(9.0%)	(67,149)	(6.5%)	203	(0%)
Financing expenses	(14,532)	(1.9%)	(28,743)	(2.8%)	14,211	(49%)
Financing income	4,631	0.6%	19,135	1.9%	(14,504)	(76%)
Company's equity in earnings of affiliates, net	36	0.0%	98	0.0%	(62)	(63%)
Loss before income taxes	(76,811)	(10.3%)	(76,659)	(7.5%)	(152)	0%
Tax benefit	17,227	2.3%	13,903	1.4%	3,324	24%
Loss for the period	**(59,584)**	(8.0%)	**(62,756)**	(6.1%)	3,172	(5%)

(*) Retroactive implementation of changes in accounting policy – see Note 8 to the Financial Statements

The key factors that influenced the business results in the six month period ended June, 2009 compared with the same period last year:

- The decrease in operating revenues is due mainly to the decrease in passenger revenues, which is due to the decrease in the number of passengers relative to the first half of 2008, from a decrease in average revenue per passenger kilometer, as well as from the strengthening of the USD compared to other currencies. Cargo transport revenues also decreased compared to the same period last year, primarily as a result of the global slump in air cargo shipping, and as a result of the discontinuation of Far East cargo activity in the second quarter of 2008.

- The first half of 2009 saw a decrease in the Company's operating expenses relative to the same period last year, primarily due to a decrease in jet fuel expenses and a decrease in salary expenses as detailed below as well as the decrease in activity.

- Salary costs in the first half of 2009 decreased relative to the comparable period last year, primarily as a result of the devaluation on the average NIS exchange rate relative to the USD of 15% relative to the comparable period last year, which led to a decrease in NIS salary expenses in dollar terms and a 5% decrease in average man-years. Regarding the impact of the changes in the exchange rate of the NIS vs. the USD on the Company's liabilities due to employee benefits, see note 3.4 below.

- The Company's expenses for jet fuel dropped from $378.4 million in the first half of 2008 to $218.8 million in the first half of 2009, after hedging payments totaling $69.9 million in the first half of 2009 (compared with hedging returns of $28.2 million received in the comparable period last year). The fair value of jet fuel hedging transactions not classified as hedging agreements increased by $16.6 million in the reported period, which reduced fuel expenses (compared to a fair value decrease of $5.9 million in the same period last year).

  In all, the first half of 2009 saw a 33% decrease in Company's effective jet fuel prices compared to the same period last year. In addition, jet fuel expenses also decreased as a result of the decrease in flight hours in the reported period compared to the same period last year.

  As for jet fuel hedging, see 7.3 below.

- Selling expenses decreased compared to the same period last year, mainly as a result of the decrease in distribution expenses and their portion of the turnover, this as a result of the decrease in passenger and cargo revenues as well as the increase in direct Company sales through its call center and the internet. In addition, salary expenses decreased, as described above.

- General and administrative expenses decreased compared with the same period last year primarily due to the decrease in salary expenses.

- The Company listed other net revenues to the amount of $0.2 million net, in the account period primarily as a result of capital gains from the sale of fixed assets.

- The decrease in financing costs in the first half of 2009 relative to the same period last year derived primarily from the decrease in interest expenses on Company loans as a result of the drop in LIBOR rates as well as exchange rate differences deriving from the devaluation of the NIS in relation to the USD in the reported period (which were listed as financing revenues) compared to expenses in respect to exchange rate differences in the comparable period last year.

- The Company's financing revenues decreased primarily as a result of income from exchange rate hedging transactions the Company received in the first half of 2008, which the Company had no exchange rate hedging transactions in the reported period. In addition, a decrease occurred in interest revenue from

Company deposits as a result of the drop in LIBOR rates and drop in deposits in the reported period relative to the same period last year. On the other hand, in the first half of 2009 the Company had income from interest and exchange rate hedging, compared to interest and exchange rate hedging expenses listed in the first half of 2008. As for interest and exchange rate hedging, see 7.4 and 7.5 below.

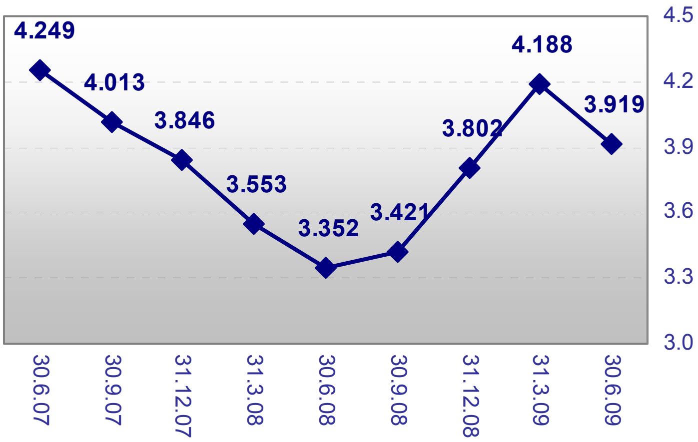
- Tax benefits increased as a result of the pre-tax loss relative to the comparable period last year.

3.4 Effect of Changes in the Exchange rate on the Company's Employee Benefit Obligations

In the three month period ending June 30 2009, the exchange rate of the NIS vs. the USD was revaluated by 6.4%, compared to the 5.7% revaluation of the NIS vs. the USD occurring in the same quarter last year.

The exchange rate of the NIS vs. the USD decreased by 3.1% in the first half of 2009, compared to the 12.8% revaluation of the NIS vs. the USD occurring in the same quarter last year.

US Dollar –NIS Exchange Rate:



The Company has net obligations for employee benefits primarily for compensation, retirement plans, sick and vacation day redemption to the amount of $85 million as of June 30 2009. As most of these obligations are in NIS while the Company's functional currency is the dollar, these obligations must be translated to dollars, which leads to differences deriving from changes in the NIS/USD exchange rate. Exchange rate differences are not one-directional, and lead to revenues or expenses to be listed accordingly in the Company's reports. These revenues or expenses have no impact on the Company's cash flow or short term operating costs. In order to allow a long term comparison of the Company's business results, these revenues or expenses must be neutralized.

A $4.3 million increase in expenses due to this component was listed in the quarter ending June 30 2009 relative to the same period last year, in which $4.7 million increase in expenses were listed due to this component.

A $2.9 million decrease in expenses due to this component was listed in the first half of 2009 relative to the same period last year, in which $10.5 million increase in expenses were listed due to this component.

The following are the business results with the influence of the exchange rate on the employee benefits obligation component neutralized, as explained above:

Three-month period ended June 30,	Before neutralizing the exchange-rate effect on the accrued severance pay		After neutralizing the exchange-rate effect on the accrued severance pay	
	2009	2008	2009	2008
	(in thousands US dollars)			
Operating expenses	353,107	487,048	350,570	485,001
Gross profit	46,325	70,408	48,862	72,455
Gross profit rate	11.6%	12.6%	12.2%	13.0%
Selling, general and administrative expenses	69,412	87,446	69,082	87,189
Other operating revenues (expenses),net	(1,373)	(2,740)	88	(348)
Operating loss before financing	(24,460)	(19,778)	(20,132)	(15,082)
Operating loss rate before financing	*(6.1%)*	*(3.5%)*	*(5.0%)*	*(2.7%)*
Loss for the period	(19,744)	(12,758)	(15,416)	(8,062)
Loss rate for the period	*(4.9%)*	*(2.3%)*	*(3.9%)*	*(1.4%)*

Six-month period ended June 30,	Before neutralizing the exchange-rate effect on the accrued severance pay		After neutralizing the exchange-rate effect on the accrued severance pay	
	2009	2008	2009	2008
	(in thousands US dollars)			
Operating expenses	681,041	902,762	682,560	898,116
Gross profit	65,058	123,948	63,539	128,594
Gross profit rate	8.7%	12.1%	8.5%	12.5%
Selling, general and administrative expenses	132,165	166,983	132,460	166,397
Other operating revenues (expenses),net	161	(24,114)	(939)	(18,860)
Operating loss before financing	(66,946)	(67,149)	(69,860)	(56,663)
Operating loss rate before financing	*(9.0%)*	*(6.5%)*	*(9.4%)*	*(5.5%)*
Loss for the period	(59,584)	(62,756)	(62,498)	(52,270)
Loss rate for the period	*(8.0%)*	*(6.1%)*	*(8.4%)*	*(5.1%)*

3.5 Segment Reporting

Presented below are operational segment data on a consolidated basis:

A. General

The Group has applied IFRS 8, "Operating Segments" (hereinafter "IFRS 8") starting January 1 2009.

According to IFRS 8, operational segments are identified based on internal reports on the Group's components, which are reviewed on a regular basis by the Group's chief operating decision maker for the purpose of allocating resources and assessing the performance of the operational segments.

On the other hand, the pervious standard (IAS 14, "Segment Based Reporting") required that entities recognize two segment arrays (business and geographical), based on the risk and yield method, with the internal financial reporting system for the entity's key administrative personnel serving only as an starting point for the recognition of the above segments.

As a result of the adoption of the new standard, the Group has recognized reportable segments different from those presented in earlier reporting periods.

The report array conveyed to the Group's chief operating decision maker, for the purpose of allocating resources and assessing the performance of the operational segments based on the difference between revenues from passenger aircraft, cargo aircraft, charter flights (mainly to subsidiary Sun D'Or) and other revenues. In light of the above, the following are the Company's reported operating segments in accordance with IFRS 8:

Segment A – passenger aircraft activity.

Segment B – cargo aircraft activity.

Segment C – others.

Passenger aircraft activity includes revenues (without deducting discounts) from the transport of passengers including baggage, transporting cargo in the belly of passenger aircraft, mail transport and the contribution from the sale of duty free products. Expenses charged to this segment include variable expenses involved in operating the flights, mainly fuel costs (not including changes in fair value of jet fuel hedging agreement), passenger and cargo handling, airport taxes and fees variable maintenance costs, passage and communications fees, passenger food and supplies, aircraft leasing fees, discounts and commissions given to passengers or paid to travel agents, air crew expenses including salaries and variable security costs.

Cargo aircraft activity includes revenues from airborne cargo shipping fees. Expenses charged to this segment are the variable expenses for the operation of these flights mentioned above.

Other Company activities include revenues from charter flights via subsidiary Sun D'Or (which are written off in the "Adjustments to Consolidated" column), revenues from maintenance service provided to outside elements as well as a broad variety of services and revenues such as equipment leasing, frequent flier membership fees, loading and unloading services and more. The variable expenses involved in the creation of any sort of revenue are charged to these revenues.

Unassigned expenses include primarily depreciation expenses, salary expenses - with the exception of air crews – and other fixed costs.

Information referring to these segments is reported in B below. Sums reported for previous reporting periods were restated according to the new segment reporting base.

B. Analysis of income and results by operating segments:

For Three-month period ending:					
30.06.2009 (Unaudited)	passenger aircraft	cargo aircraft	others	Adjustment	Total consolidated
	In Millions of US dollars				
operating revenues					
revenue from external customers	363.7	11.9	8.8	-	384.4
inter-segment revenues	-	-	14.2	(14.2)	-
Adjustment to consolidataed	-	-	-	15.0	15.0
Total segment revenues	**363.7**	**11.9**	**23.0**	**0.8**	**399.4**
segment results	69.3	(0.7)	9.2		77.8
Unassigned expenses					(102.3)
Operating loss					**(24.5)**
Financing expenses					(10.0)
Financing income					3.0
Company's share in the profits of affiliates, net					0.0
Loss before income taxes					**(31.5)**
Income taxes					11.8
Loss for the period					**(19.7)**

30.06.2008 (Unaudited)	passenger aircraft	cargo aircraft	others	Adjustment	Total consolidated
	For Three-month period ending:				
	In Millions of US dollars				
operating revenues					
revenue from external customers	492.5	36.1	10.7	-	539.4
inter-segment revenues	-	-	17.9	(17.9)	-
Adjustment to consolidataed	-	-	-	18.1	18.1
Total segment revenues	**492.5**	**36.1**	**28.6**	**0.2**	**557.5**
segment results	91.7	3.4	10.9		106.0
Unassigned expenses					(125.8)
Operating loss					**(19.8)**
Financing expenses					(13.3)
Financing income					16.5
Company's share in the profits of affiliates, net					0.0
Loss before income taxes					**(16.6)**
Income taxes					3.8
Loss for the period					**(12.8)**

30.06.2009 (Unaudited)	passenger aircraft	cargo aircraft	others	Adjustment	Total consolidated
	For Six-month period ending:				
	In Millions of US dollars				
operating revenues					
revenue from external customers	669.1	31.1	18.6	-	718.8
inter-segment revenues	-	-	25.8	(25.8)	-
Adjustment to consolidataed	-	-	-	27.3	27.3
Total segment revenues	**669.1**	**31.1**	**44.4**	**1.5**	**746.1**
segment results	122.7	(1.4)	19.4		140.7
Unassigned expenses					(207.6)
Operating loss					**(66.9)**
Financing expenses					(14.5)
Financing income					4.6
Company's share in the profits of affiliates, net					0.0
Loss before income taxes					**(76.8)**
Income taxes					17.2
Loss for the period					**(59.6)**

For Six-month period ending:					
30.06.2008 (Unaudited)	passenger aircraft	cargo aircraft	others	Adjustment	Total consolidated
	In Millions of US dollars				
operating revenues					
revenue from external customers	891.9	84.7	21.6	-	998.2
inter-segment revenues	-	-	32.5	(32.5)	-
Adjustment to consolidataed	-	-	-	28.5	28.5
Total segment revenues	**891.9**	**84.7**	**54.1**	**(4.0)**	**1,026.7**
segment results	169.5	7.0	22.5		199.0
Unassigned expenses					(266.2)
Operating loss					**(67.2)**
Financing expenses					(28.7)
Financing income					19.1
Company's share in the profits of affiliates, net					0.1
Loss before income taxes					**(76.7)**
Income taxes					13.9
Loss for the period					**(62.8)**

For The year ended:					
31.12.2008 (Audited)	passenger aircraft	cargo aircraft	others	Adjustment	Total consolidated
	In Millions of US dollars				
operating revenues					
revenue from external customers	1,832.0	139.5	51.1	-	2,022.6
inter-segment revenues	-	-	76.4	(76.4)	-
Adjustment to consolidataed	-	-	-	73.7	73.7
Total segment revenues	**1,832.0**	**139.5**	**127.5**	**(2.7)**	**2,096.3**
segment results	436.2	8.7	57.7		502.6
Unassigned expenses					(508.3)
Operating loss					**(5.7)**
Financing expenses					(61.5)
Financing income					17.0
Company's share in the profits of affiliates, net					0.5
Loss before income taxes					**(49.7)**
Income taxes					7.8
Loss for the period					**(41.9)**

The first half and second quarter of 2009 saw a decrease in revenues in all operating segments as well as a decrease in contributions in all segments compared to the same periods last year, as a result of the decrease in activity and profitability as shown in Paragraph 3.3 of this report, which analyzes the Group's operating results.

4. Seasonal Factors

The Group's activity is seasonal and focuses on peak periods. Heavy traffic of Israelis traveling abroad occurs primarily during the summer months and during holidays, while heavy incoming tourist traffic occurs during the summer months and during Jewish or Christian holidays or vacation time in their countries of origin.

5. Liquidity and Financing Sources

Movement in cash flows in the six and three month periods ending June 30 2009 compared to the same periods last year:

	Apr - Jun 2009 in thousands US dollars	Apr - Jun 2008 in thousands US dollars	change in thousands US dollars
Cash flows from operating activities	41,090	68,040	(26,950)
Cash flows used for investing activities	(48,427)	(125,731)	77,304
Cash flows from (used) for financing activities	88,215	(12,987)	101,202
Increase (decrease) in cash and cash equivalents	80,878	(70,678)	151,556

	Jan -Jun 2009 in thousands US dollars	Jan -Jun 2008 in thousands US dollars	change in thousands US dollars
Cash flows from operating activities	24,918	109,197	(84,279)
Cash flows used for investing activities	(14,563)	(81,123)	66,560
Cash flows from (used) for financing activities	94,216	(25,195)	119,411
Increase in cash and cash equivalents	104,571	2,879	101,692

In the quarter ending June 30 2009, the Company derived cash flows from operating activities to the amount of $41.1 million (compare to cash flows from operating activity to the amount of $68.0 million in the same quarter last year). The change in question derived mainly from an increase in pre-tax loss in the reported quarter and the increase in fair value earnings from derivative financial instruments not in cash.

The Company invested $48.4 million in the second quarter of 2009 in investment activity, primarily in purchasing fixed and intangible assets to the amount of $138.8 million, offset by the realization of pledged deposits to the amount of $77.4 million and the yield from the sale of an aircraft and other fixed assets amounting to $13.4 million. The Company used $125.7 million in cash for investment activity in the second quarter of 2008, primarily in investments in short-term deposits amounting to $80.1 million and the purchase of other fixed assets, including engine overhauls, to the amount of $44.4 million.

The Company received $88.2 million from financing activity in the second quarter of 2009, primarily from loans received for the purchase of 3 737-800 aircraft to the amount of $113.3 million, offset by the repayment of long term loans to the amount of $17.4 million and payments for loan raising fees to the amount of $7.2 million In the same quarter last year, the Company used $13.0 million for financing activity, primarily $13.9 million for the repayment of long term loans.

In the first half of 2009, the Company derived cash flows from operating activities to the amount of $24.9 million (compare to cash flows from operating activity to the amount of $109.2 million in the same period last year). The decrease derived from an increase in fair value earnings from derivative financial instruments not in cash and from changes in assets and liabilities items.

The Company invested $14.6 million in the first half of 2009 in investment activity, primarily in purchasing fixed and intangible assets to the amount of $152.2 million, offset by the realization of pledged deposits to the amount of $114.7 million the sale of fixed assets to the amount of $22.5 million. The Company used $81.1 million in cash for investment activity in the first half of 2008, primarily in the purchase of fixed assets including investments in engine overhauls to the amount of $63.7 million as well as investments in short term deposits to the amount of $15.1 million.

The Company received $94.2 million from financing activity in the first half of 2009, primarily from the loans received for the purchase of 737-800 aircraft to the amount of $113.3 million, offset by the repayment of long term loans to the amount of $26.4 million and payments for loan raising fees to the amount of $7.2 million In the same quarter last year, the Company used $25.2 million for financing activity, primarily $22.5 million for the repayment of long term loans and dividend payments to the amount of $3.1 million.

In total, the balance of cash and cash equivalents and short term deposits as of June 30 2009 amounted to a total of $162.8 million, compared to $58.4 million on December 31 2008.

6. Critical Accounting Estimates

The implementation of accounting standards by the Company's management upon preparing financial statements occasionally involves various assumptions, assessments and estimates influencing the amounts of the assets and liabilities and the business results reported in the Financial Statements. Some of the assumptions, assessments and estimates are critical to the financial position or operating results reflected in the Group's Financial Statements, due to their materiality, complexity of the calculations or likelihood of realization of matters that are uncertain.

For details on the material estimates included in the Financial Statements see Note 3 to the December 31 2008 Financial Statements. For estimates related to frequent flier club liabilities, see Notes 2.c and 8 of the June 30 2009 Financial Statements.

7. Qualitative Reporting on Exposure to and Management of Market Risks

7.1 General – Description of Market risks to which El Al is Exposed

Presented below is a summary of the market risks to which the Company is exposed:

Changes in prices of jet fuel – Jet fuel constitutes a significant element of the Company's operating expenses, having a material effect on the Company's profitability. In the Company's estimation, at its current level of activity, every ¢1 increase in the price of a gallon of jet fuel during an entire year increases the Company's fuel expenses by $2.3 million. The Company has taken hedging measures to reduce the exposure, as provided in Paragraph 7.3 below.

Exposure to changes in interest rates – Most of the Company's long-term loans are at variable interest. Therefore, an increase in the LIBOR rate could impact the Company's profitability.

At the present level of activity, every 1% increase in the Libor rate for a full year increases the Company's financing expenses by $7.3 million.

The Company has adopted hedging measures to reduce the exposure, as provided in Section 7.4 below.

Currency exposure – Most of the Company's revenues and expenses are in foreign currency (mainly U.S. dollar), except for several shekel expenses, mainly salary expenses and suppliers paid in Israel. Accordingly, a change in the shekel/dollar exchange rate influences the Company's shekel expenses in dollar terms. In the Company's estimation, at the present level of activity, appreciation of the exchange rate of the shekel relative to the dollar of each 1% for an entire year increases the Company's annual expenses by $3.5 million. Likewise, a surplus of receipts exists over payments in euro, but at insignificant rates.

Exposure in long-term loan frameworks– According to the provisions of the loan agreements, the Company must maintain a minimal collateral ratio between the market value of the planes and the balance of the loans that financed their purchase. Likewise, the Company is required to comply with certain covenants, for which, if not complied with, the Company could be demanded to immediately repay the loans.

See Note 20.g.1 to the December 31 2008 Financial Statements for further details. The Company's exposure to market risks in this area derives from the changes that occur in the market value of planes globally, due to exceptional security events, and to the oversupply of seats on airlines in the world. For further details see Note 4.b to the June 30 2009 Financial Statements.

7.2 El Al Market Risk Management Policies, Officials Responsible for their Management and Means of Controlling and Executing Policy

The Company has a Board of Directors committee for market risks management headed by the chairman of the finance, budget and Financial Statements committee, Mr. Nadav Palti, who is responsible for prescribing the policy for covering the existing exposure. The CFO is responsible for executing the policy and reporting to the Market Risks Management Committee. The Company has held regular meetings of the Market Risks Management Committee in 2009.

From time to time, the Market Risks Management Committee evaluates the Company's status as regards exposure in the fields of jet fuel, interest and exchange rates, the need to invest in derivatives, to reduce the exposure accordance with policy, as well as the financial instruments used to perform the required hedging.

The Company's policy as regards jet fuel hedging is as follows: hedging jet fuel quantities for up to 24 months forward, so that for every period, a minimum and maximum percentage to be hedged out of total expected consumption gradually decreases. Therefore, the maximum hedge percentage at the beginning of the period is 80% and the minimum percentage at the end of the period is 20%.

The Company's policy with respect to interest hedging is to hedge about half of the Company's credit portfolio, so that half will be at variable interest and half at fixed interest, for a period of up to 5 years.

The Company's policy with respect to exchange rates is: to hedge up to half of the shekel exposure for one year forward.

The market risks committee of the Board of Directors occasionally instructs the Company's management to deviate from these rates set for jet fuel, interest and exchange rate, for specified periods of time, according to market developments. For details regarding the policy implemented, see Sections 7.3, 7.4 and 7.5. For details of the influence of the changes in the economic environment, the implications of the crisis in capital markets and market risks after the balance sheet date see Section 11 below.

7.3 Hedging Jet Fuel Prices

The Company executes financial transactions to hedge against changes in jet fuel prices, in accordance with its policy as described in Section 7.2 above.

As of June 30 2009, the Company entered into several agreements, in order to hedge jet fuel prices, at 47% of expected consumption in July-December 2009 and 27% of expected consumption in 2010.

Some of these transactions are recognized as hedging agreements for accounting purposes, and some are not. The fair value of all jet fuel hedging instruments as of June 30 2009 is a net negative sum of $85.4 million, presented in the Financial Statements in the framework of current liabilities and long term liabilities under "Derivative Financial Instruments". The Company made payments for these hedging agreements to the amount of $31.1 million in the reported quarter.

For further details see Note 28.g to the December 31 2008 Financial Statements.

For details regarding changes occurring subsequent to the balance sheet date, see Section 11.b of the Board of Directors report.

7.4 Hedging Interest on Loans

The Company executes, with banking institutions in Israel, hedges of the exposure in its long-term credit portfolio, due to changes in interest rates, in accordance with its policy as laid out in Section 7.2 above.

Some of these financial instruments are recognized for accounting purposes as hedging transactions and some are not. The fair value of these instruments as of June 30, 2009 is a negative sum of $23.2 million, which is presented in the Financial Statements in the framework of current and long term liabilities under "Derivative Financial Instruments".

After executing these hedges, as of June 30, 2009, 45% of the balance of the Company's loans is at fixed interest rates for a period of up to three and a half years. In addition, over the course of the second quarter of 2009 the Company received fixed-interest loans to the amount of $113.3 million at fixed interest for a period of 12 years, which constitutes some 13% of the Company's loans. For further details see Note 4.a.2 of the Financial Statements.

The Company paid $1.4 million in refunds for these hedging agreements in the reported quarter.

For additional information on these transactions, see Note 28.f to the December 31 2008 Financial Statements.

For information on changes occurring subsequent to the balance sheet date, see Section 11.c of the Board of Directors Report.

7.5 Exchange Rate Hedges

As of June 30 2009, the Company has no exchange rate hedges.

For information on changes occurring subsequent to the balance sheet date, see Section 11.d of the Board of Directors Report.

7.6 Sensitivity Analysis Reporting

Presented below is a sensitivity analysis of the fair value of the financial instruments sensitive to possible changes in the risk factors to which they are exposed. The sensitivity analyses were performed relative to the fair value of the financial instruments as of June 30 2009

The following are sensitivity analysis tables for instruments sensitive to changes in market factors:

A. <u>Sensitivity to changes in shekel/dollar exchange rate – thousands of dollars</u>:

	Gain (loss) from changes			Gain (loss) from changes	
	Increase 10% 4.311 NIS/$	Increase 5% 4.115 NIS/$	Fair value 3.919 NIS/$	Decrease 5% 3.723 NIS/$	Decrease 10% 3.527 NIS/$
Cash and cash equivalents	(1,281)	(671)	14,094	742	1,566
Short-term deposits	(692)	(363)	7,617	401	846
Trade receivables	(88)	(46)	967	51	107
Other receivables	(595)	(312)	6,548	345	728
Long-term bank deposits	(175)	(91)	1,921	101	213
Total financial Assets	(2,832)	(1,483)	31,147	1,639	3,461
Short-term borrowings and current maturities	4	2	(44)	(2)	(5)
Trade payables	2,511	1,315	(27,616)	(1,453)	(3,068)
Other payables	588	308	(6,470)	(341)	(719)
Current provisions	4,256	2,229	(46,818)	(2,464)	(5,202)
Total financial liabilities	7,359	3,855	(80,948)	(4,260)	(8,994)
Exposure in linkage balance sheet due to surplus financial liabilities over financial assets *	4,527	2,371	(49,801)	(2,621)	(5,533)

* Does not include exposure for the effect of the changes in the exchange rate on accrued severance pay, as provided in Section 3.4.

B. Sensitivity to changes in euro/dollar exchange rate – thousands of dollars:

	Gain (loss) from changes			Gain (loss) from changes	
	Increase 10% 0.779 Euro/$	Increase 5% 0.743 Euro/$	Fair value 0.708 Euro/$	Decrease 5% 0.673 Euro/$	Decrease 10% 0.637 Euro/$
Cash and cash equivalents	(186)	(98)	2,050	108	228
Trade receivables	(1,430)	(749)	15,733	828	1,748
Other receivables	(127)	(67)	1,397	74	155
Total financial Assets	(1,744)	(913)	19,180	1,009	2,131
Short-term borrowings and current maturities	76	40	(841)	(44)	(93)
Trade payables	1,719	900	(18,907)	(995)	(2,101)
Other payables	254	133	(2,792)	(147)	(310)
Total financial liabilities	2,049	1,073	(22,540)	(1,186)	(2,504)
Exposure in linkage balance sheet due to surplus financial liabilities over financial assets*	305	160	(3,360)	(177)	(373)

* Does not include exposure for the effect of the changes in the exchange rate on accrued severance pay, as provided in Section 3.4.

C. Sensitivity to changes in jet fuel prices on inventory (dollar/gallon) – in thousands of dollars:

Type of instrument	Gain from changes			Loss from changes	
	Increase 10% 1.937 $/gallon	Increase 5% 1.849 $/gallon	Fair value 1.761 * $/gallon	Decrease 5% 1.673 $/gallon	Decrease 10% 1.585 $/gallon
Jet fuel Inventory	830	415	8,301	(415)	(830)

* Jet fuel prices according to moving weighted average as of June 30 2009.

D. Sensitivity of jet fuel hedge to changes in jet fuel prices – in thousands of dollars:

According to the model's principles, jet fuel hedges that react in a similar manner to market factors were grouped together, since there was no loss of material information required to understand the Company's exposure to market risks as a result of the grouping. On January 5 2009 jet fuel prices changed by 14%, and therefore the following sensitivity analysis includes a 15% change in jet fuel prices.

Type of instrument	Gain from changes			Fair value * 1.796 $/gallon	Loss from changes		
	Increase 15% 2.065 $/gallon	Increase 10% 1.976 $/gallon	Increase 5% 1.886 $/gallon		Decrease 5% 1.706 $/gallon	Decrease 10% 1.616 $/gallon	Decrease 15% 1.527 $/gallon
Options - not designed for hedging	3,042	2,119	1,106	(5,123)	(1,197)	(2,485)	(3,858)
SWAP transactions - designed for hedging	27,295	18,197	9,098	(80,283)	(9,098)	(18,197)	(27,295)
Total fuel transections	30,337	20,316	10,204	(85,406)	(10,295)	(20,682)	(31,153)

* The price of Jet fuel in the Med region as of June 30 2009, according to which the fair value of the Company's hedge transactions is computed.

E. **Sensitivity of an interest hedge to changes in market interest rates – in thousands of dollars:**

According to the principles of the model, the Group executed interest hedges that respond in a similar way to market factors (swap agreements with knock out not intended for hedging, IRS agreements intended for hedging, IRS agreements not intended for hedging), since no loss of significant information is sustained that is required to understand the Company's exposure to the market risk, as a result of the grouping.

Type of instrument	Gain from changes		Fair value *	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 designed for hedging	697	406	(4,217)	(357)	(656)
IRS transactions - designed for hedging	938	469	(4,638)	(469)	(940)
IRS transactions - not designed for hedging	2,357	1,179	(9,025)	(1,179)	(2,359)
Cylinder transactions - not designed for hedging	722	386	(5,345)	(404)	(791)
Total	4,714	2,440	(23,225)	(2,409)	(4,746)

* Fair value was calculated according to the market Libor rate as of the balance sheet date, at the following rates: 3-month Libor: 0.60%, 6-month Libor: 1.11%, and 12-month Libor 1.61%, all as applicable and according to the relevant transaction.

8. Linkage Basis Report

The following is the consolidated linkage basis report for June 30 2009:

	In, or linked to the US dollar	In Israeli currency	In, or linked to the euro	In, or linked to the other currencies	Non-monetary items	Total
	(in thousands US dollars)					
Assets						
Cash and cash equivalents	130,834	14,094	2,050	8,193		155,171
Short-term deposits		7,617				7,617
Restricted deposits	38,291					38,291
Trade receivables	110,142	967	15,733	12,466		139,308
Other receivables	17,101	6,548	1,397	1,726		26,772
Prepaid expenses					37,097	37,097
Inventories					16,921	16,921
Long-term bank deposits		1,921				1,921
Investments in affiliated companies	1,229				1,543	2,772
Investments in another company	1,563					1,563
Fixed assets, net					1,368,045	1,368,045
Intangible assets, net					8,737	8,737
Assets due to employee benefits	148	33,830				33,978
	299,308	**64,977**	**19,180**	**22,385**	**1,432,343**	**1,838,193**
Liabilities & Equity						
Short-term bank borrowings and current maturities	(108,615)	(44)	(841)	(46)		(109,546)
Trade payables	(91,411)	(27,616)	(18,907)	(12,719)		(150,653)
Other payables	(55,220)	(6,470)	(2,792)	(3,965)		(68,447)
Current provisions	(10,843)	(46,818)				(57,661)
Current derivative financial instruments	(76,898)					(76,898)
Current employee benefit obligations	(2,695)	(79,350)	(505)	(337)		(82,887)
Current unearned revenues					(276,679)	(276,679)
Long-term loans from financial institutions	(750,380)					(750,380)
Long-term employee benefit obligations	(7,650)	(53,259)	(901)	(5,389)		(67,199)
Long-term derivative financial instruments	(31,733)					(31,733)
Long-term provisions	(8,927)					(8,927)
Deferred tax					(1,532)	(1,532)
Long-term unearned revenues					(47,424)	(47,424)
Shareholders' equity					(108,227)	(108,227)
	(1,144,372)	**(213,557)**	**(23,946)**	**(22,456)**	**(433,862)**	**(1,838,193)**
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	**(845,064)**	**(148,580)**	**(4,766)**	**(71)**	**998,481**	**-**

The following is the consolidated linkage basis report for June 30 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	63,617	10,987	7,095	7,850		89,549
Short-term deposits	187,000	8,695				195,695
Trade receivables	153,958	290	10,307	9,621		174,176
Other receivables	11,555	6,327	3,024	256		21,162
Current derivative financial instruments	101,578	10,663				112,241
Prepaid expenses					43,275	43,275
Inventories					16,775	16,775
Long-term bank deposits		2,531				2,531
Investments in affiliated companies	1,229				1,137	2,366
Investments in another company	1,760					1,760
Long-term derivative financial instruments	23,901					23,901
Fixed assets, net					1,286,152	1,286,152
Intangible assets, net					6,803	6,803
Assets due to employee benefits	159	40,960				41,119
	544,757	**80,453**	**20,426**	**17,727**	**1,354,142**	**2,017,505**
Liabilities & Equity						
Short-term bank borrowings and current maturities	(71,899)	(445)	(851)			(73,195)
Trade payables	(131,102)	(26,840)	(22,099)	(13,642)		(193,683)
Other payables	(57,143)	(9,564)	(3,037)	(377)		(70,121)
Current provisions	(26,053)	(50,354)				(76,407)
Current derivative financial instruments	(592)					(592)
Current employee benefit obligations	(3,713)	(92,630)	(1,196)	(798)		(98,337)
Current unearned revenues					(313,103)	(313,103)
Long-term loans from financial institutions	(685,652)					(685,652)
Long-term employee benefit obligations	(7,029)	(68,168)	(969)	(6,828)		(82,994)
Lease fees payable	(228)					(228)
Long-term derivative financial instruments	(2,537)					(2,537)
Long-term provisions	(16,533)					(16,533)
Deferred tax					(63,538)	(63,538)
Long-term unearned revenues					(49,183)	(49,183)
Shareholders' equity					(291,402)	(291,402)
	(1,002,481)	**(248,001)**	**(28,152)**	**(21,645)**	**(717,226)**	**(2,017,505)**
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	**(457,724)**	**(167,548)**	**(7,726)**	**(3,918)**	**636,916**	**-**

The following is the consolidated linkage basis report for December 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	24,496	19,530	4,187	2,387		50,600
Short-term deposits		7,821				7,821
Restricted deposits	152,969					152,969
Trade receivables	83,530	306	11,019	11,191		106,046
Other receivables	10,467	7,225	490	1,511		19,693
Current derivative financial instruments	174					174
Prepaid expenses					27,692	27,692
Inventories					11,472	11,472
Long-term bank deposits		2,189				2,189
Investments in affiliated companies	1,229				1,507	2,736
Investments in another company	1,565					1,565
Fixed assets, net					1,314,182	1,314,182
Intangible assets, net					8,618	8,618
Assets due to employee benefits	129	36,648				36,777
	274,559	**73,719**	**15,696**	**15,089**	**1,363,471**	**1,742,534**
Liabilities & Equity						
Short-term bank borrowings and current maturities	(84,746)	(55)	(742)	(728)		(86,271)
Trade payables	(77,984)	(22,214)	(23,320)	(10,672)		(134,190)
Other payables	(36,703)	(3,742)	(2,451)	(1,845)		(44,741)
Current provisions	(10,410)	(46,639)				(57,049)
Current derivative financial instruments	(108,072)					(108,072)
Current employee benefit obligations	(2,319)	(84,055)	(927)	(629)		(87,930)
Current unearned revenues					(197,911)	(197,911)
Long-term loans from financial institutions	(678,657)					(678,657)
Long-term employee benefit obligations	(7,672)	(62,866)	(856)	(4,832)		(76,226)
Long-term derivative financial instruments	(86,789)					(86,789)
Long-term provisions	(11,728)					(11,728)
Deferred tax					(1,872)	(1,872)
Long-term unearned revenues					(52,434)	(52,434)
Shareholders' equity					(118,664)	(118,664)
	(1,105,080)	**(219,571)**	**(28,296)**	**(18,706)**	**(370,881)**	**(1,742,534)**
Monetary assets, net of monetary liabilities (monetary liabilities, net of monetary assets)	**(830,521)**	**(145,852)**	**(12,600)**	**(3,617)**	**992,590**	**-**

9. Disclosure in the Report of the Board of Directors Regarding the Financial Statements Approval Process

The body charged with ultimate control in the Company is its Board of Directors.

Within the framework of the Board of Directors, the Company operates several committees, including the Audit Committee, the Market Risks Management Committee, the Human Resources and Appointments Committee, the Cargo Committee, the Government Affairs and Regulations Committee and the Finance, Budget and Financial Statements Committee, consisting of four members, including an outside director. As of this report, three out of the four members of the committee have accounting and financial expertise, as defined in the Companies Law, 1999, and the regulations promulgated as a result.

An advance draft of the Financial Statements is sent to the members of the Board of Directors.

The Finance, Budget and Financial Statements Committee meets for extensive and thorough discussion of the draft Financial Statements, in the presence of the independent auditor. The Chief Executive Officer and the Chief Financial Officer present the members of the committee with extensive details on the Financial Statements, including detailed financial analyses about the Company's performance during the reporting period.

The committee examines the significant financial reporting issues, including material transactions that are not in the ordinary course of business – if any, the significant assessments and critical estimates that were applied in the Financial Statements, the reasonableness of the data, the accounting policy applied and the changes that occurred in them, if any, the application of the principle of fair disclosure in the Financial Statements and various aspects of control and management of risks.

When complex or significant issues are on the agenda, special discussions are held by the Finance, Budget and Financial Statements Committee on the issue on the agenda, with the independent auditor participating.

The committee holds a discussion about the Financial Statements presented to it, including directing questions to the members of management present and to the independent auditor. Likewise, the independent auditor is asked to present his comments, if any, to the committee members, including accounting policy applied and special events that arose during the audit.

The committee adopts a resolution to recommend to the Company's Board of Directors to approve the Financial Statements, subject to making corrections, changes and supplements – if so requested by the members of the committee.

The Financial Statements are presented to the members of the board in a separate meeting, in which the CEO, the CFO and other officers of the Company participate, also attended by the independent auditor.

A discussion is also held in this forum regarding the Financial Statements, including questions addressed to the independent auditor and members of the Company's management and special issues in the reporting period are presented. At the end of the discussion, the Board of Directors adopts a resolution on the approval of the Financial Statements.

10. Explanation of the Matter to which the Company's Independent Auditors Draw Attention in their Report on the Financial Statements

The Company's independent auditors draw attention, in their opinion on the Financial Statements, to Note 5 to the Interim Financial Statements - regarding the legal proceedings against the Company.

Although the matter to which the independent auditors drew attention does not constitute a change in the uniform wording of the auditor's report, attention must be drawn to it because of its possible material effect on the Company.

11. Disclosure regarding Changes in the Economic Environment, the Implications of the Capital Market Crisis and Market Risks

a. The international aviation industry is affected by the global security situation and political and unusual events, such as the outbreak of epidemics and natural disasters in the world, in general, and in specific areas, in particular, as well as by the economic situation in Israel and around the world.

   As of the publication of this report, the global market crisis is still undergoing, and the economic slowdown has also been felt in Israel. The results of the financial crisis have been reflected by a sharp decrease in passenger numbers, a reduction of business traffic and a sharp decrease in cargo flown. These factors, added to the fear of "swine flu", have led to an unprecedented crisis in the international aviation industry.

   According to IATA projections, airlines around the world are expected to lose $9 billion in 2009. This estimate is nearly twice as high as IATA's previous projection.

   Since the end of the second quarter of 2009 jet fuel prices have remained extremely volatile. A decrease has occurred in USD interest rates along with fluctuation in exchange rate of the NIS versus the USD. The impact of these changes on the Company shall be detailed below.

b. As of the Balance Sheet date (June 30 2009) the price of jet fuel in the Med region was 179.6 cents per gallon, while as of immediately prior to the approval of the second 2009 quarterly report this price has reached 189.0 cents per gallon, a 5% increase.

   The effective price the Company is expected to pay for jet fuel consumption (after hedging) in July and August 2009 is similar to effective price it paid in January-June 2009. At the same time, the fair value of jet hedging instruments shall be set in accordance with price changes which occurred since the end of the second quarter and the completion of accounting for some of the transactions.

With the drop in jet fuel prices in the second half of 2008, the Company provided, as collateral to guarantee its meeting, hedging payments owed in accordance with its agreements with the hedging institutions to the amount of $67 million, consisting mainly of letters of credit issued by Israeli banks in return for the restriction of assets and cash, and in part from interest-bearing deposits deposited directly at the hedging banks.

Subsequent to the balance sheet date, the deposit updating mechanism continued on a regular basis in accordance with daily fluctuations in jet fuel market prices. Note that the amount of the collateral changes from day to day according to jet fuel market prices and the Company make daily calculations regarding the changes required in the collateral and their extent.

In July and August 2009 the Company completed hedging transactions for a portion of the jet fuel consumption expected by the second quarter of 2011, in accordance with Company policy, as detailed in 7.2

c. Subsequent to the balance sheet date and until a date immediately prior to the approval of the second 2009 quarterly report, a further decrease occurred in three-month Libor interest rates, at a rate of 23%.

The impact of the drop in Libor rates in the payment of interest on loans shall be evident in the next repayment date for each loan. The interest payments on Company loans for the third quarter of 2009 shall be made according to interest rates in previous quarters. The Company possesses hedging agreements for Libor rates (see Section 7.4 above), the fair value of which is expected to drop as a result of the decrease in Libor interest rates.

d. Subsequent to the balance sheet date, fluctuation continued in the exchange rate of the NIS vs. the USD and immediately prior to the approval of this report, the value of the NIS increased by 3% compared to the USD. A 1% revaluation in the NIS/USD exchange rate for an entire year increases the Company's yearly expenses by $3.5 million.

In addition to the above, the revaluation of the NIS relative to the dollar increases the Company's shekel liabilities in dollar terms (see Section 3.4 of the Board of Directors Report), thus increasing the Company's salary and financing expenses.

Note that the impact of exchange rates on next quarter's operating results shall be determined based on exchange rates in effect throughout the quarter and at its conclusion (September 30 2009).

In August 2009 the Company conducted new hedging agreements for the USD rate of exchange for each of the months between September 2009 and November 2010, to protect a portion of its NIS payroll expenses.

12. Subsequent Events

Regarding events subsequent to the balance sheet date regarding cargo aircraft activity, a labour dispute and changes in corporate tax rates, see Note 11 to the June 30 2009 Interim Financial Statements.

Amikam Cohen	**Haim Romano**
Chairman of the Board	**Chief Executive Officer**

August 18, 2009

EL AL Israel Airlines Ltd.

Concise Interim Consolidated Financial Statements
As of June 30, 2009

(Unaudited)

EL AL ISRAEL AIRLINES LTD

Concise Interim Consolidated Financial Statements (Unaudited)
As of June 30, 2009

C o n t e n t s

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
EL AL ISRAEL AIRLINES LTD.

Introduction

We have reviewed the attached financial information on **El Al Israel Airlines Ltd**. and its subsidiaries ("the Group"), which includes the concise consolidated report on its financial status as of June 30 2009 and its consolidated concise Statement of Operations and reports on General Earnings, Changes in Equity and Cash Flows for the six and three month periods ending that date. The Company's Board of Directors and management are responsible for the preparation and presentation of financial information for this interim period in accordance with International Accounting Standard 34 "Interim Financial Reporting), as well as for the preparation of financial information for this interim period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express our opinion on these financial statements based on our reviews.

We did not review the concise interim financial information of subsidiaries, whose assets included in consolidation constitute 0.9% of total consolidated assets as of June 30, 2009, and whose revenues constitute 1.1% of total consolidated revenues for the six and three month periods ending that date. The financial statements of those subsidiaries were reviewed by other auditors whose reports have been provided us, and our opinion, insofar as it relates to the amounts included in respect thereof, is based on the reports of those other auditors.

Scope of the Review

We conducted our reviews in accordance with Review Standard 1 of the Israeli Institute of Certified Public Accountants, "Reviews of Financial Information for Interim Periods Prepared by the Entity's Auditor." A review of financial information for interim periods consists of inquiries, mainly from people responsible for finances and accounting, and from the application of analytical and other reviewing procedures. This review is significantly limited in scope compared to audits prepared in accordance with generally accepted Israeli auditing standards and therefore does not allow us to achieve assurance that we have become aware of all material issues that may be identified in an audit. Accordingly, we cannot express our opinion on the review.

Conclusion

Based on our reviews and the reports of other CPAs, nothing has come to our attention leading us to believe that the financial information in question has not been prepared, in all material aspects, in accordance with IAS 34.

In addition to the above, based upon our review and that of other CPAs, nothing has come to our attention causing us to believe that the financial information in question does not fulfill, in all material aspects, the disclosure directives laid out in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying the above opinion, we direct your attention to Note 5 of these Financial Statements regarding legal proceedings pending against the Company.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, August 18, 2009

EL AL Israel Airlines Ltd.

Concise Consolidated Balance Sheet

	As of June 30		As of December 31
	2009	(*) 2008	(*) 2008
	Thousands of Dollars		Thousands of Dollars
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	155,171	89,549	50,600
Short-term deposits	7,617	195,695	7,821
Restricted deposits	38,291	-	152,969
Trade receivables	139,308	174,176	106,046
Other receivables	26,772	21,162	19,693
Derivative financial instruments	-	112,241	174
Prepaid expenses	37,097	43,275	27,692
Inventories	16,921	16,775	11,472
Total current assets	421,177	652,873	376,467
Non-current assets			
Long-term bank deposits	1,921	2,531	2,189
Investment in affiliated companies	2,772	2,366	2,736
Investment in another company	1,563	1,760	1,565
Derivative financial instruments	-	23,901	-
Fixed assets, net	1,368,045	1,286,152	1,314,182
Intangible assets, net	8,737	6,803	8,618
Assets due to employee benefits	33,978	41,119	36,777
Total non-current assets	1,417,016	1,364,632	1,366,067
Total Assets	1,838,193	2,017,505	1,742,534

(*) Retroactive implementation of changes in accounting policy - see Note 8.

EL AL Israel Airlines Ltd.
Concise Consolidated Balance Sheet

	As of June 30		As of December 31
	2009	(*) 2008	(*) 2008
	Thousands of Dollars (Unaudited)		Thousands of Dollars
Liabilities and shareholders' equity			
Current liabilities			
Short-term borrowings and current maturities	109,546	73,195	86,271
Trade payables	150,653	193,683	134,190
Other payables	68,447	70,121	44,741
Provisions	57,661	76,407	57,049
Derivative financial instruments	76,898	592	108,072
Employee benefit obligations	82,887	98,337	87,930
Unearned revenues	276,679	313,103	197,911
Total current liabilities	822,771	825,438	716,164
Non-current liabilities			
Long-term loans from financial institutions	750,380	685,652	678,657
Employee benefit obligations	67,199	82,994	76,226
Lease fees payable	-	228	-
Derivative financial instruments	31,733	2,537	86,789
Long-term provisions	8,927	16,533	11,728
Deferred tax	1,532	63,538	1,872
Long term unearned revenues	47,424	49,183	52,434
Total non-current liabilities	907,195	900,665	907,706
Total liabilities	1,729,966	1,726,103	1,623,870
Shareholders' equity			
Share capital	155,012	155,012	155,012
Share premium	28,007	28,007	28,007
Capital reserve from transactions with a former controlling shareholder	237,122	237,122	237,122
Capital reserve in respect of share-based payment	5,999	5,060	5,780
Capital reserve in respect of cash flow hedging	(62,677)	82,701	(111,605)
Accumulated loss	(255,236)	(216,500)	(195,652)
Total shareholders' equity	108,227	291,402	118,664
Total liabilities and equity	1,838,193	2,017,505	1,742,534

(*) Retroactive implementation of changes in accounting policy – see Note 8.

Amikam Cohen	Haim Romano	Nissim Malki
Chairman of the Board of Directors	CEO	CFO

Certification date of interim financial statements: Ben-Gurion Airport, August 18, 2009

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

EL AL Israel Airlines Ltd.
Concise Consolidated Statement of Operations

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30		For the Year Ending December 31
	2009	(*) 2008	2009	(*) 2008	(*) 2008
	Thousands of Dollars				
	(Unaudited)		(Unaudited)		
Operating revenues	746,099	1,026,710	399,432	557,456	2,096,326
Operating expenses	(681,041)	(902,762)	(353,107)	(487,048)	(1,776,329)
Gross profit	65,058	123,948	46,325	70,408	319,997
Selling expenses	(89,034)	(115,661)	(47,629)	(61,117)	(227,573)
General and administrative expenses	(43,131)	(51,322)	(21,783)	(26,329)	(97,103)
Other operating (expenses) revenues, net	161	(24,114)	(1,373)	(2,740)	(975)
	(132,004)	(191,097)	(70,785)	(90,186)	(325,651)
Operating loss before financing	(66,946)	(67,149)	(24,460)	(19,778)	(5,654)
Financing expenses	(14,532)	(28,743)	(10,056)	(13,328)	(61,566)
Financing income	4,631	19,135	2,958	16,455	16,969
Financing expenses, net	(9,901)	(9,608)	(7,098)	3,127	(44,597)
Company's equity in earnings of affiliates, net	36	98	37	42	543
Loss before income taxes	(76,811)	(76,659)	(31,521)	(16,609)	(49,708)
Tax benefit	17,227	13,903	11,777	3,851	7,801
Loss for the period	(59,584)	(62,756)	(19,744)	(12,758)	(41,907)
Basic loss per NIS 1 par value share, in USD					
Basic loss per share	(0.12)	(0.13)	(0.04)	(0.03)	(0.08)
Diluted loss per share	(0.12)	(0.13)	(0.04)	(0.03)	(0.08)
Weighted average numbers of shares issued for calculation of loss per share (in thousands)					
Basic	495,719	495,719	495,719	495,719	495,719
Diluted	495,719	495,719	495,719	495,719	495,719

(*) Retroactive implementation of changes in accounting policy – see Note 8.

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

EL AL Israel Airlines Ltd.

Concise Consolidated Statement of Comprehensive Income

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30		For the Year Ending December 31
	2009	(*) 2008	2009	(*) 2008	(*) 2008
	Thousands of Dollars				
	(Unaudited)		(Unaudited)		
Loss for the period	(59,584)	(62,756)	(19,744)	(12,758)	(41,907)
Other Comprehensive Income (Loss)					
Earning (Loss) in respect of cash flow hedging, net of tax	48,928	74,360	39,149	69,124	(119,946)
Other Comprehensive Income (Loss) for the period, net of tax	48,928	74,360	39,149	69,124	(119,946)
Comprehensive Income (Loss) for the period	(10,656)	11,604	19,405	56,366	(161,853)

(*) Retroactive implementation of changes in accounting policy - see Note 8.

EL AL Israel Airlines Ltd.

Consolidated Statement of Changes in Shareholders' Equity

For the Six Month Period Ended June 30 2009

	Share capital	Share premium	Capital reserve from transactions with a former controlling shareholder	Capital reserve in respect of share-based payment	Capital reserve in respect of cash flow hedging	Accumulated loss	Total
	Thousands of Dollars						
	(Unaudited)						
Balance as of January 1 2009	155,012	28,007	237,122	5,780	(111,605)	(152,969)	161,347
Influence of changes in accounting policy						(42,683)	(42,683)
Balance as of January 1 2009 after retroactive adjustments	155,012	28,007	237,122	5,780	(111,605)	(195,652)	118,664
Total Profit (loss) for the period	-	-	-	-	48,928	(59,584)	(10,656)
Share based payment	-	-	-	219	-	-	219
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	219	-	-	219
Total shareholders' equity as of June 30 2009	155,012	28,007	237,122	5,999	(62,677)	(255,236)	108,227

For the Three Month Period Ended June 30 2009

	Share capital	Share premium	Capital reserve from transactions with a former controlling shareholder	Capital reserve in respect of share-based payment	Capital reserve in respect of cash flow hedging	Accumulated loss	Total
	Thousands of Dollars						
	(Unaudited)						
Balance as of April 1 2009	155,012	28,007	237,122	5,982	(101,826)	(235,492)	88,805
Total profit (loss) for the period	-	-	-	-	39,149	(19,744)	19,405
Share based payment	-	-	-	17	-	-	17
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	17	-	-	17
Total shareholders' equity as of June 30 2009	155,012	28,007	237,122	5,999	(62,677)	(255,236)	108,227

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

EL AL Israel Airlines Ltd.

Consolidated Statement of Changes in Shareholders' Equity

	For the Six Month Period Ended June 30 2008						
	Share capital	Share premium	Capital reserve from transactions with a former controlling shareholder	Capital reserve in respect of share-based payment	Capital reserve in respect of cash flow hedging	Accumulated loss	Total
	Thousands of Dollars						
	(Unaudited)						
Balance as of January 1 2008	155,012	28,007	237,122	4,464	8,341	(114,102)	318,844
Influence of changes in accounting policy	-	-	-	-	-	(39,597)	(39,597)
Balance as of January 1 2008 after retroactive adjustments	155,012	28,007	237,122	4,464	8,341	(153,699)	279,247
Total profit (loss) for the period	-	-	-	-	74,360	(62,756)	11,604
Adjustments due to dividends distributed	-	-	-	-	-	(45)	(45)
Share based payment	-	-	-	596	-	-	596
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	596	-	(45)	551
Total shareholders' equity as June 30 2008	155,012	28,007	237,122	5,060	82,701	(216,500)	291,402

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

EL AL Israel Airlines Ltd.

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Capital reserve from transactions with a former controlling shareholder	Capital reserve in respect of share-based payment	Capital reserve in respect of cash flow hedging	Accumulated loss	Total
	For the Three Month Period Ended June 30 2008						
	Thousands of Dollars						
	(Unaudited)						
Balance as of April 1 2008	155,012	28,007	237,122	4,736	13,577	(162,747)	275,707
Influence of changes in accounting policy	-	-	-	-	-	(40,995)	(40,995)
Balance as of April 1 2008 after retroactive adjustments	155,012	28,007	237,122	4,736	13,577	(203,742)	234,712
Total profit (loss) loss for the period	-	-	-	-	69,124	(12,758)	56,366
Share based payment	-	-	-	324	-	-	324
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	324	-	-	324
Total shareholders' equity as of June 30 2008	155,012	28,007	237,122	5,060	82,701	(216,500)	291,402

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

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

	For the Year Ended December 31 2008						
	Share capital	Share premium	Capital reserve from transactions with a former controlling shareholder	Capital reserve in respect of share-based payment	Capital reserve in respect of cash flow hedging	Accumulated loss	Total
	Thousands of Dollars						
Balance as of January 1 2008	155,012	28,007	237,122	4,464	8,341	(114,102)	318,844
Influence of changes in accounting policy	-	-	-	-	-	(39,597)	(39,597)
Balance as of January 1 2008 after retroactive adjustments	155,012	28,007	237,122	4,464	8,341	(153,699)	279,247
Total loss for the period	-	-	-	-	(119,946)	(41,907)	(161,853)
Adjustments due to dividends distributed	-	-	-	-	-	(45)	(45)
Share based payment	-	-	-	1,316	-	-	1,316
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	1,316	-	(45)	1,271
Total shareholders' equity as of December 31 2008	155,012	28,007	237,122	5,780	(111,605)	(195,652)	118,664

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

EL AL Israel Airlines Ltd.

Consolidated Statement of Cash Flow

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30		For the Year Ending December 31
	2009	(*) 2008	2009	(*) 2008	(*) 2008
	Thousands of Dollars				
	(Unaudited)		(Unaudited)		
Cash Flows from Operating Activities					
Loss for the period	(59,584)	(62,756)	(19,744)	(12,758)	(41,907)
Appendix A - Adjustments required for presentation of cash flow from current operations	84,502	171,953	60,834	80,798	160,782
Cash deriving from operating activities, net	24,918	109,197	41,090	68,040	118,875
Cash Flows for Investment Activities					
Acquisition of fixed assets (including general engine overhauls and payment on account of aircraft)	(151,434)	(63,739)	(138,202)	(44,405)	(159,580)
Proceeds from realized fixed assets	22,517	423	13,426	264	9,676
Investment in intangible assets	(726)	(2,744)	(597)	(1,493)	(5,078)
Realization of (investment in) restricted deposits	114,678	-	77,355	-	(152,969)
Realization of (investment in) short-term deposits, net	204	(15,062)	(497)	(80,065)	172,812
Investment in deposits for service providers	(35)	-	(8)	-	(80)
Repayment of deposits for service providers	37	-	-	-	83
Realization of long-term deposits	211	134	105	71	277
Investment in long-term deposits	(15)	(135)	(9)	(103)	(238)
Cash used for investment activities, net	(14,563)	(81,123)	(48,427)	(125,731)	(135,097)
Cash Flows for Financing Activities					
Receipt of long-term loans from financial institutions	113,259	-	113,259	-	36,000
Repayment of long-term loans from financial institutions	(26,234)	(22,347)	(17,315)	(13,842)	(64,911)
Repayment of other long-term loans	(184)	(200)	(91)	(91)	(385)
Payment for loan raising costs	(7,159)	-	(7,159)	-	-
Increase (decrease) in short-term credit, net	14,534	405	(479)	946	12,501
Dividends paid	-	(3,053)	-	-	(3,053)
Cash deriving from (used for) financing activities, net	94,216	(25,195)	88,215	(12,987)	(19,848)
Increase (decrease) in cash and cash equivalents	104,571	2,879	80,878	(70,678)	(36,070)
Balance of cash and cash equivalents at the beginning of the period	50,600	86,670	74,293	160,227	86,670
Balance of cash and cash equivalents at the end of the period	155,171	89,549	155,171	89,549	50,600

(*) Retroactive implementation of changes in accounting policy - see Note 8.

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

EL AL Israel Airlines Ltd.

Consolidated Statement of Cash Flow

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30		For the Year Ending December 31
	2009	(*) 2008	2009	(*) 2008	(*) 2008
	Thousands of Dollars				
	(Unaudited)		(Unaudited)		
Appendix A					
Income and expenses not involving cash flows:					
Depreciation and amortization (including disposal of accessories, disused components and consumables used)	75,177	64,265	36,000	33,005	131,098
Adjustment of value of long-term deposits	72	(368)	(126)	(161)	(21)
Share of earnings of affiliated companies, less dividends received, net	(36)	(98)	(37)	(42)	(468)
Deferred taxes, net	(17,412)	(14,354)	(12,019)	(4,302)	(6,989)
Increase (decrease) in liabilities in respect of employee benefits and in provisions	(21,895)	22,742	(2,872)	(10,068)	(17,555)
Net capital gains from realized fixed assets	(494)	(327)	(394)	(219)	(7,418)
Adjustment of value of other long-term liabilities	-	(8)	-	(5)	-
Adjustment of value of deposits for service providers	-	-	-	-	148
Benefit value of employee stock option program	219	596	17	324	1,316
Loss (gain) from adjustment of fair value of derivatives recognized in the statement of operations	(20,056)	(260)	(18,230)	(1,057)	65,087
Decrease in other long-term liabilities	-	-	-	-	(168)
Changes in asset and liability items:					
Decrease (Increase) in trade receivables	(33,262)	(30,559)	(4,269)	16,065	37,571
Decrease (Increase) in other accounts receivable	(7,079)	(3,534)	(6,767)	(2,485)	(1,269)
Decrease (Increase) in prepaid expenses	(7,645)	(7,946)	(2,400)	(1,946)	6,840
Decrease (Increase) in inventories	(5,449)	(794)	(639)	1,000	4,509
Increase (decrease) in trade payables	16,463	26,263	23,606	15,712	(33,230)
Increase (decreases) in other payables	32,141	17,572	21,813	6,153	(4,856)
Increase (decrease) in unearned revenues	73,758	98,763	27,151	28,824	(13,813)
	84,502	171,953	60,834	80,798	160,782
Appendix B – Cash Payment (Receipt) of Interest, Taxes and Dividends					
Interest payments	10,441	15,683	5,479	7,970	35,759
Interest receipts	(763)	(13,458)	(322)	(8,650)	(10,680)
Tax payments – advances in respect of extraneous expenses	33	77	18	43	235
Dividend receipts	-	-	-	-	(76)

(*) Retroactive implementation of changes in accounting policy – see Note 8.

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

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

Note 1 - General

a. EL AL Israel Airlines Ltd is primarily engaged, through its subsidiaries (hereinafter – "the Group") in the transport of passengers and cargo, including luggage and mail, on scheduled flights and charter flights between Israel and foreign countries. Further information on the Group's operating segments is presented in Note 7 below.

b. These concise statements must be seen in context with the Company's yearly Financial Statements dated December 31 2008 and the year ending that date, and the attached notes.

Note 2 - Significant Accounting Policies

a. Basis for the preparation of the Financial Statements:

The Group's concise interim consolidated financial statements (hereinafter: "**Interim Statements**") have been compiled in accordance with International Accounting Standard 34, "Interim Financial Reporting" (hereinafter: "**IAS 34**")

In the preparation of these Interim Financial Statements, the Group implemented accounting policy, rules of presentation and calculation methods identical to those applied in the preparation of its Financial Statements for December 31 2008 and for the year ending that date, with the exception of changes in accounting policy deriving from the implementation of standards, amendments to standards and new interpretations coming into effect on the balance sheet date as detailed in Paragraph C below as well as from the application of new standards, revisions and interpretations which are not in effect and which were adopted early by the Group as detailed in Paragraph D below.

b. The Consolidated Concise Financial Statements have been prepared in accordance with the provisions of Chapter D of the Securities Regulations (Immediate and Periodic Reports), 1970.

c. New standards, revisions and interpretations in effect, applied in these Financial Statements:

- **IFRS 8 – "Operating Segments"**

  The standard, which supersedes IAS 14 (Segment Reporting", sets forth how a corporation is to report information by segment in its financial statements. Inter alia, the standard stipulates that the company's segment reporting shall be based on information used by company management for evaluation of segment performance, and for making decisions with regard to resource allocation to the different operating segments.

  The standard would apply for annual reporting periods starting on January 01, 2009 with retroactive adjustment of comparison figures for prior reporting periods. The first-time implementation of the standard has no impact on the Group's reported operating results and financial status. On the matter of reporting on the Company's operating segments in accordance with IFRS 8, including retroactive adaptation of comparison numbers, see Note 7 below.

- **IAS 1 (Revised) – "Presentation of Financial Statements"**

  The standard sets forth the presentation required in financial statements, and provides details of a general framework for the outline of a financial statement as well as the minimum content to be included in such statement. In the revision of these standards, changes were made to the current presentation format of financial statements, and presentation and disclosure requirements with regard to financial statements have been expanded, including presentation of an additional statement included in the Financial Statements, named "statement of comprehensive income", as well as the addition of a balance sheet as of the start of the earliest period presented in the financial statements in case of change in accounting policy by means of retroactive application, in cases of re-statement and in cases of re-classification. The standard will apply, through retroactive application, to reporting periods starting on January 01, 2009. According to the standard, the Group presents a report on its total earnings which specifies total other earnings components separately from the components shown in the Statement of Operations as well as a report on changes in shareholders' equity presenting balances for transactions with shareholders, pursuant to their role as shareholders. The first-time implementation of the standard has no impact on the Group's reported operating results and financial status.

- **IFRIC 13 – "Customer Loyalty Programs"**

  This clarification stipulates that transaction for sale of goods and services, wherein the company awards its customers with bonus credits, shall be treated as multi-component transactions, with the payment received from the customer will be allocated to its different components based on the fair value of the credit award. The proceeds attributed to the award shall be recognized as revenue when the credit awards are cashed and the Group is liable to provide the rewards.

  The interpretation applies to yearly reporting periods starting January 1 2009.

  As a result of the retroactive implementation of the interpretation, the Group recognized an increase in net unearned revenues (less prepaid commission expenses) of $49,258 thousand as of December 31 2008, against a $36,944 thousand increase in accumulated loss and $12,314 thousand in deferred tax, and an increase in net unearned revenues (less prepaid commission expenses) of $46,528 thousand as of June 30 2008, against a $34,896 thousand in accumulated loss and $11,632 thousand in deferred tax. Regarding the impact of retroactive implementation on the other items of the Financial Statements, see Note 8 below.

- **IFRS 2 (Revision) – "Share-Based Payment" – Vesting Conditions and their Cancellation**

  This revision determines which vesting conditions must be taken into account in measuring fair value upon granting share-based payment and the accounting treatment of instruments with no vesting conditions and their cancellation.

  The revision apples, retroactively, to yearly reporting periods starting January 1 2009.

  The implementation of this revision has no impact on the Group's Financial Statements.

- **IFRS 7 (Revision) "Financial Instruments: - Disclosure"**

  This amendment expands the required disclosure regarding liquidity risk and the measurement of fair value, while establishing a three-tier grading for the presentation of fair value measurements.

  The amendment applies to yearly periods starting January 1 2009 or subsequently. The amendment will be implemented retroactively.

  The implementation of the standard has no impact on the Group's reported operating results and financial status.

- **Improvements to International Financial Reporting Standards 2008**

  In May 2008, the IASB published a series of improvements to International Financial Reporting Standards. These improvements include revisions to some of the standards, which modify the way different items are stated, recognized and measured in the financial statements.

  Furthermore, some terminology corrections were made which have a negligible impact, if any, on the financial statements.

  Most of the revisions became effective starting on annual reporting periods starting January 01, 2009. Most of the revisions were applied by way of retroactive adjustment of comparison figures.

These revisions include several revisions which, under applicable circumstances, may impact the financial statements. The main such revisions are new or revised requirements with regard to:

(1) Revision of IAS 38 "Intangible Assets", which stipulates that payments for advertising and sales promotion activities shall be recognized as an asset until the date on which the entity has access to goods purchased, or in case of services, the date said services are rendered.

This revision applies to annual reporting periods starting on January 01, 2009. This revision is applied retroactively.

The implementation of the revision has no impact on the Group's Financial Statements.

(2) Revision of IAS 19 "Employee Benefits", which stipulates that an accumulated right to compensation for absences shall be measured as a short-term employee benefit, or as other long term employee benefits based on the date the employee's right to receive the benefit was created.

As a result, the Group presents vacation benefits as short term employee benefits, measured at the height of the non-capitalized sum the Group expects to pay for the realization of this right.

As a result of the retroactive implementation of the revision, the Group recognized an increase in obligations as a result of short term employee benefits of $7,756 and $10,349 thousand as of December 31 2008 and June 30 2008, respectively, against a $5,739 and $7,618 thousand increase in accumulated loss, respectively, and an increase of $2,017 and $2,731 thousand in deferred tax assets, respectively.

Regarding the impact of retroactive implementation on the remainder of financial statement items, see Note 8 below.

d. New standards, revisions and interpretations, not in effect, applied in these Financial Statements by way of early adoption:

- **Improvements to 2009 International Financial Reporting Standards**

IFRS 8 (Revision) "Operating Segments" – Disclosure Regarding Segment Assets

This revision states that disclosure regarding reportable segment assets shall only be provided if this information is provided on a regular basis to the chief operational decision maker. Prior to the implementation of the revision, this information is required ignoring the manner of the reporting to the chief operational decision maker.

The revision shall be implemented retroactively on comparison data, regarding yearly reporting periods starting January 1 2010 or subsequently. Early implementation is possible.

The Company has adopted this revision by way of early implementation. In light of this, segment assets were not presented in these Financial Statements.

e. New standards, revisions and interpretations, not in effect, not applied in these Financial Statements by way of early adoption:

- **IAS 39 (Revision) "Financial Instruments: Recognition and Measurement"**

The amendment states, inter alia, that changes in cash flow deriving from exposure to inflationary risks may be designated as hedged items. In addition, the revision states that the internal value of purchased options, unlike the time value, may be used as a hedging instrument of unilateral risks deriving from a projected transaction.

The revision shall apply to yearly reporting periods starting January 1 2010 or later. Early implementation is possible.

At this stage, Company management cannot assess the impact of the implementation of the revision on its financial status and operating results.

- **Improvements to 2009 International Financial Reporting Standards**

IAS 39 (Revision) "Financial Instruments: Recognition and Measurement" – Cash Flow Hedging

This revision clarifies the reclassification date for profits or losses charged to financial assets or financial liabilities deriving from the hedging of a projected transaction. The reclassification from shareholders' equity to the Statement of Operations shall be in a period when the projected cash flows being hedged influence the Statement of Operations. Prior to this revision, the reclassification to gain/loss took place when the asset purchased or liability taken influenced the Statement of Operations.

The revision shall be applied on a "here onward" basis to all contracts in effect for yearly reporting periods starting January 1 2010 or subsequently. Early application is permitted.

At this stage, Company Management cannot assess the impact of the application of the revision on its financial status and operating results.

f. Exchange rates and linkage basis:

(1) Balances in foreign currency, or linked to foreign currency, are included in the Financial Statements according to official exchange rated published by the Bank of Israel and in effect as of the balance sheet date.

(2) Balances linked to the Consumer Price Index are presented using the most recent known CPI value upon the balance sheet date.

(3) Below are data for USD exchange rates and CPI in Israel:

	As of June 30 2009	As of June 30 2008	As of December 31 2 0 0 8
CPI (in points)	112.8	108.9	110.4
NIS/USD exchange rate	3.919	3.352	3.802
EUR/USD exchange rate	0.708	0.634	0.717
pound sterling/USD exchange rate	0.602	0.502	0.685

Change in %:

	For the Six Month Period Ended June 30 2009	For the Six Month Period Ended June 30 2008	For the Year Ended December 31 2 0 0 8
CPI	2.1	2.3	3.8
USD vs. NIS	3.1	(12.8)	(1.14)
USD vs. EUR	(1.2)	(6.8)	5.6
USD vs. pound sterling	(12.1)	0.7	37.4

	For the Three Month Period Ended June 30 2009	For the Three Month Period Ended June 30 2008	For the Year Ended December 31 2 0 0 8
CPI	2.3	2.2	3.8
USD vs. NIS	(6.4)	(5.7)	(1.14)
USD vs. EUR	(5.7)	0.4	5.61
USD vs. pound sterling	(13.9)	(0.13)	37.39

Note 3 - Security Expenses

Pursuant to that stated in Note 15 to the Company's annual Financial Statements, on February 1 2009 the Israeli Government passed an updated resolution regarding participation in the security expenses of Israeli airlines (following the resolutions dated January 27 2008 and August 24 2008), as follows:

a. To increase the participation rate in security expenses in Israeli airlines to 60% from 2009 onward. Implementation of the resolution shall take place immediately after the Knesset passes its 2009 budget.

b. To instruct the Ministers of Finance and of Transport and Road Safety to increase the State's participation in Israeli airline security costs to 75%, immediately after the signing of a global aviation agreement with the European Union ("Open Skies") in accordance with Government Resolution 441 dated September 12 2006.

c. To instruct the Minister of Transport and Road Safety to report to the Government, six months subsequent to this resolution, on the progress of negotiations with the European Union regarding the global aviation agreement ("Open Skies").

d. Prior to the approval of the 2009 budget, the Budget Controller at the Ministry of Finance will act to submit a budget addition deriving from this resolution for the Government's approval, for the funding for an increase in the State's participation in civil aviation security costs.

e. The airlines will act to conduct "exchange purchases" in Israel, as much as is possible at rates agreed upon with the Industrial Cooperation Authority."

On May 13 2009 the Company filed a revised petition, in which the Company requested that the original government decision regarding 2008 be implemented, or alternately, up until the August 2008 cancellation resolution.

Subsequent to the balance sheet date, with the passing of the 2009 State Budget, the Company received a total of $4.7 million from the State of Israel for participation in security expenses. As of the balance sheet date the Company recognized, under Other Receivables, an asset for the sum in question in return for the reduction of security expenses recognized in the report period. Management's decision relies on the approval of the Government of Israel headed by Mr. Ehud Olmert and its ratification by the Government of Israel headed by Mr. Benjamin Netanyahu, passed January 2008 and February 2009 respectively and according to which the Israeli airlines' participation in security costs shall be reduced from 50% to 40%, and the implementation of this decision shall take place with the passing of the 2009 State Budget.

Note 4 - Fixed Assets

a. Acquisition and disposals of fixed assets:

1. On February 23 2009 a Boeing 757-200 possessed by the Company, manufactured in 1987, was sold and leased back to the El Al Group via operational lease. The plane was purchased by a Panamanian aircraft leasing company. The Company received $9 million in return for the aircraft. According to the agreement, the Group shall lease the aircraft under market conditions for a 22 month period, with the option to extend the lease for an additional 12 months, as well as a monthly credit for engine maintenance calculation amounting to $1.8 million. The transaction had no material influence on the Group's Statement of Operations.

2. Following that stated in Note 14.e.2 to the annual Financial Statements, on April 17 2009 the delivery of the first Boeing 737-800 to the Company was completed and on May 20 2009 the delivery of the second aircraft was completed. To complete the transaction and finance the purchase, the Company received the approval of the Export-Import Bank of the United States (here: "the Bank") for $37.5 million in financing for each aircraft. Pursuant to the completion of the transaction in question and as part of the financing agreement, in each of the above aircraft deliveries the Company signed an agreement with the Spanish airline to cancel the direct purchase of the aircraft in question, so that the aircraft would be sold by the Spanish airline to Boeing, with the Company purchasing the aircraft directly from Boeing. The third aircraft of this model was delivered to the Company in June 2009. The financing loan for the first aircraft was received in

April 2009 for a 12-year period, bearing fixed interest of 3.62%. This loan will be repaid in 48 quarterly payments of principal and interest on fixed dates each year (January, April, July and October). The financing loan for the second aircraft was received in May 2009 for a 12-year period, bearing fixed interest of 3.62%. This loan will be repaid in 48 quarterly payments of principal and interest on fixed dates each year (February, May, August and November). The financing loan for the third aircraft to the amount of $37.5 million was received in June 2009 for a 12-year period, bearing fixed interest of 4.01%. This loan will be repaid in 48 quarterly payments of principal and interest on fixed dates each year (March, June, September and December).

3. In March 2009 the Company signed an agreement with Pratt & Whitney for the maintenance of PW 4000 engines installed in Boeing 767 and 747-400 aircraft in the Company's service. Some of these engines will be in the framework of an insurance agreement, according to which payment to the repairing party shall be calculated according to engine hour performance and the engines will be maintained by the repairing party. Payment for repair of the remaining engines shall be according to work receipts invested in the repairs.

   In addition, a memorandum of understanding was signed with IAI regarding the maintenance of additional engines of these aircraft models in the framework of an insurance agreement.

4. On May 18 2009, a Boeing 757-200, manufactured in 1990, in the company's possession was sold and leased back by the El Al Group via operational lease. The aircraft was purchased by a Panamanian aircraft leasing company. The Company received $11.5 million in return for the aircraft. According to the agreement, the Group will lease the aircraft under market conditions for a 27 month period. As a result of the transaction, the Company recognized an additional 2.6 million expense in its financial statements as of the completion of the transaction in question.

5. In April 2009 an agreement was signed with the Volvo Aero Services Corp ("VAS") for the sale of Company Boeing 767-200 (EAA) engines in return for a total of $1.8 million.

6. Pursuant to Note 14.e.1 of the annual financial statements, as regards the agreement with Boeing for the purchase of 4 Boeing 777 aircraft, the Company is studying possible methods of financing this agreement, including a lease.

b. Devaluation of fixed assets:

Over the course of the reported period, the Company examined the recoverable value of aircraft fleets in which signs of deterioration were evident, which include, *inter alia*, aircraft price lists published from time to time, As regards the recoverable sum of these aircraft fleets, in which signs of deterioration were detected, it was found that the recoverable sum for each aircraft fleet surpasses its depreciated cost as of that date. Accordingly, no provision for the devaluation of aircraft assets was made in these Financial Statements.

c. Guarantees

Due to the drop in aircraft market values, the Company acted to provide additional bank guarantees, this based on existing loan agreements. As of this report, the Company is complying with all terms set in the framework of loan agreements with the banks.

d. Unrestricted Assets

The value of the Group's total fixed assets as of June 30 2009 is $1,368 million.
The Group's key assets are aircraft and spare engines, the depreciated cost of which as of June 30 2009 is $1,226 million. The depreciated cost of the Group's main assets that are not restricted by a third party amounts to a total of $39 million.
In addition, as of the balance sheet date, the Group possesses parts and fixed assets to the amount of $142 million, free of any encumbrance.

Note 5 - Legal Proceedings

As of June 30 2009, claims filed against the Company amount to a total of $304 million, for which the Company listed a $5.5 million provision in its financial statements, this based on the opinions of the Company's legal counsel.

Legal claims non-quantified in monetary amounts have also been filed against the Company. The above provision in the financial statements also includes provisions for non-quantified claims, as estimated by Company management.

In the assessment of Company management, based upon the opinions of its legal counsel, the Company does not anticipate that it will be exposed to an additional loss with respect to the abovementioned claims in excess of the above provisions recorded in the financial statements. The following is a detailed summary of material legal and financial claims:

a. Class action suits:

(1) Pursuant to Note 24.d.a.5 to the annual Financial Statements, in November 2007, a claim was lodged in Haifa District Court against the Company, as well as a motion for recognition as a class action pursuant to the Class Action Law, in the amount of NIS 105 million (some $27 million as of the balance sheet date). The plaintiffs claim that the prices charged by the Company for overweight baggage on its flights are excessive and are calculated without any connection to the Company's ordinary flight prices.

In February 2009 the Court approved the plaintiffs' withdrawal of his motion to recognize the claim as a class action and dismissed the claim subject to the Company's payment of legal expenses. A provision for this claim was included in the Financial Statements.

(2) Pursuant to Note 24.d.a.6 of the annual Financial Statements, a claim was filed with the Tel Aviv District Court by a passenger, who claims that her flight from Madrid to Tel Aviv was delayed due to a strike at Ben Gurion Airport, which she alleges the Company has failed to address, thereby causing expenses, distress and loss of time.
The plaintiff has filed a motion for class action status, representing all affected passengers whose flights were delayed by the aforementioned strike, estimated by the plaintiff at 3,000 passengers. The plaintiff claims that the Company should be liable to pay each class member their actual expenses as well as non-monetary damages amounting to NIS 3,500. Based on the plaintiff's claims, the sum of the suit amounts to a total of NIS 12 million (some $3 million on the balance sheet date).

In March 2009 the Court approved the dismissal of the claim without the imposition of any expense payments

(3) On April 23 2009 a motion was filed against the Company to recognize the suit as a class action, claiming that the Company failed to meet the requirements of Revision 40 to the Communications Law (Telecommunications and Broadcasts) 2008, known as the Spam Law, which forbids the transmission of advertising over email, fax, text message or telephone without the recipient's approval. The personal claim is for NIS 150, with the requested class action, as estimated by the plaintiff, amounting to a sum of NIS 22.5 million ($5.7 million as of the Balance Sheet Date). The plaintiff estimates the group at 150,000 people. The group is defined by the plaintiff as members of the Company's frequent flier club to which the Company allegedly sent text messages unlawfully. In August 2009 the plaintiff withdrew his charges and filed a request to withdraw his personal claim against the Company. The Court has yet to approve this motion.

b. Legal proceedings in the field of restriction of business overseas:

(1) Pursuant to Note 24.d.b.1 to the annual Financial Statements, on January 21 2009 the Company's Board of Directors approved a plea bargain made with the U.S. Justice Department to end the process. Within the framework of the plea bargain, the Company was required to admit that it had violated U.S. antitrust law and was involved in the fixing of one or more price components in the field of air cargo transport to and from the U.S. in the period between

January 2003 and February 2006, and was required to pay a fine of $15.7 million (a capitalized sum of $15.4 million to be paid in several interest-bearing installments across four year period). In addition, the Company undertook to continue its full cooperation with the U.S. Justice Department in its investigation. As part of the agreement, the U.S. Justice Department agreed not to file additional charges against the Company or charges against Company employees and executives, past or future (with a few exceptions) regarding violations of U.S. antitrust laws made in the field of airborne cargo transport prior to entry into the plea bargain.

A U.S. Federal Court approved the decision on February 4 2009. In light of the above, the provision made by the Company was reduced by some $5 million on December 31 2008.

(2) Pursuant to Note 24.d.b.4 of the Yearly Financial Statements, in February 2009 the Company received a request for complementary information from the Korean Fair Trade Commission. The Company has provided its responses to the requests in question. To the best of the Company's knowledge, the Korean Commission is investigating a series of airlines. The Company cannot at this stage estimate the results of the Korean Commission's investigation or assess the investigation's possible financial impact on the Company, and as a result no provision has been made for this claim in the Financial Statements.

(3) The above legal proceedings pertaining to the investigations of restriction of trade authorities may have a material impact on the Company, due to the fines these bodies may impose, which may be significantly high.

(4) On May 7 2009, the Company received a copy from a motion to approve the filing of a derivative claim and a draft of the claim itself, which were filed before the Tel Aviv-Yaffo District Court. The filing party, who claims to hold 4,500 Company shares (which constitute 0.001% of the Company's equity) asks that the Court approve the claim as a derivative claim against a number of executives serving at the Company in 2003 and who no longer serve at the Company ("the Claim"), based on the allegation that these executives allegedly violated their due diligence obligations towards the Company by causing the Company to be involved in fixing one price component, or more, in the field of cargo transport to and from the U.S. in the period in question and thus, they claim, they caused damage to the Company of at least $15.7 million U.S., this pursuant to the settlement between the Company and the U.S. Justice Department the Company reported on January 22 2009. The claim was preceded by a motion to file a derivative claim which was rejected by the Company after the Company's Board of Directors decided that it would not be in the Company's best interests to file such a claim against Former Company executives. The Company is studying the claim and has yet to file its response.

c. Other legal proceedings:

(1) In June 2006, a suit was filed against the Company and the State of Israel-Ministry of Finance by 94 claimants who were employed by the Company and took early retirement between 2001 and 2003. The claimants in their suit have appealed for declaratory relief/order of performance to amend their retirement agreements in a manner in which the retiree will receive the early pension stipend, including fringe benefits, until the legal retirement age, instead of until the age of 65; alternately, the claimants appealed to revoke the retirement agreements. The court instructed the claimants to quantify their claim and to pay an appropriate fee. The claimants quantified their claim at NIS 18.2 million (some $4.6 million as of the balance sheet date). In January 2009 the Court ordered that this claim be combined with two other claims. On January 6 2009 it ruled that the claimants submit their position regarding the limitation of the causes of the claim. The Company allowed a provision for this claim in its Financial Statements, based on the opinion of its legal counsel.

(2) On March 8 2009 the Company filed a petition to the High Court of Justice against the Minister of Transportation, the Civil Aviation Authority (hereinafter: "the Respondents") and against British Midlands Airways ("BMI"). The Company's position is that the Respondents may not increase the frequency of BMI flights from London to Tel Aviv without first arranging landing and takeoff approvals for Heathrow Airport for the Company, as required by the Israel-U.K. aviation agreement. In the petition, the Supreme Court is asked to issue a conditional order requiring the Respondents to explain: (1) why they would not deny approval to BMI to operate additional regular flights until the realization of the aviation agreement between Israel and the

U.K and the Company's receipt of landing and takeoff approval at Heathrow Airport on an equal basis (and if such approval has been granted, why it would not be frozen or revoked); (2) why the Supreme Court would not declare that they are required to arrange the Company's landing and takeoff approvals at Heathrow Airport prior to granting BMI any additional rights; and (3) why they would not carry out the test agreed upon in the 2007 agreement between Israel and the U.K regarding the implications and results of the agreement. In addition, the Supreme Court was asked to issue an injunction instructing the Respondents to deny BMI approval for additional regular flights to Israel (and if such approval had been granted – to postpone it) until the petition is decided. The Supreme Court issued its ruling on March 16 2009, stating that no injunction would be issued and that the petition would be brought before a panel of judges by the middle of May 2009.

In a court hearing held on May 13 2009, the State (the Ministry of Transportation and the Civil Aviation Authority) announced that it was aware of the slot problem (takeoff and landing approvals), an that it had tried to provide solutions in the past and will attempt to help in the future, subject to existing constraints and taking into consideration the array of interests for which the State is responsible. The State will raise this matter on every opportunity in order to provide assistance, particular regarding aviation talks to take place summer 2009, and in addition shall encourage the parties (the Company and BMI) to negotiate among themselves. In light of the State's announcement and as recommended by the Court, the Company has decided to withdraw its claim.

(3) Pursuant to that stated in Note 24.d.(c).(1) to the Yearly Financial Statements, on April 28 2009 the Company filed opening motions to the Tel Aviv District Court in the matter of the dispute between the parties concerning the management of joint subsidiary Sabre Israel, *inter alia*, in the matter of communications and data processing costs the Company charged the Subsidiary and an offset performed by the Company, as a result, against its payments to the Subsidiary. As stated, as a result of this offset the subsidiary initiated arbitration proceedings in accordance with Israeli law, supposedly by virtue of the marketing fee agreement, which was signed between the parties in the framework of the agreement signed between the Company and Sabre in 2001. An arbitrator has been appointed, but the Company disputes his right to rule on the issue. On May 13 2009, Sabre Israel filed a $1.4 million suit via arbitration, claiming that the Company had not paid commissions in accordance with the marketing fee agreement. Provisions were made for Sabre's suits in the Company's Financial Statements.
In addition, on April 2 2009 the Company informed Sabre of the existence of an exit event, as defined in the agreement, and requested that it act towards voluntary liquidation, as stated in the agreement. Sabre disputes the existence of the exit event.

Note 6 - Agreements with Related Parties

a. On January 22 2009 the Company's CEO, Mr. Haim Romano, acting on his own initiative, informed the Company's Board of Directors that he would be waiving 15% of the total yearly salary he is entitled to receive from the Company for 2009 (with the exception of provisions and social benefits). Said waiver was made as a result of the global economic crisis and market conditions.

b. In a special General Meeting of the Company's shareholders held on March 4 2009, the following was decided:

To increase the financial remuneration to sitting directors and/or directors serving from time to time at the Company, with the exception of external directors, all for the purpose of the execution of their duties as Company directors and all actions deriving from this position, as follows:

(1) Remuneration for participation in meetings of the Company's Board of Directors and/or any of its committee at the fixed sum appearing in the third addendum to the Companies Regulations (Rules Regarding Remuneration and Expenses for external Directors) 2000 (hereinafter: "the Remuneration Regulations"), in accordance with the Company's grade in accordance with the first addendum to the Remuneration Regulations, as determined from time to time. The remuneration for participation in meetings via telecommunications shall be 60% of the remuneration for participation in the meeting and the remuneration for a decision passed without actually convening shall be 50% of the remuneration for participating in the meeting.

Yearly remuneration is at the fixed sum appearing in the second addendum to the Remuneration Regulations, in accordance with the Company's grade according to the first addendum to the Remuneration Regulations, as shall be determined from time to time.

(2) To approve remuneration for Ms. Sophia Kimmerling, considered a controlling party at the Company, for her service as a director at Sun D'Or International Airlines Ltd., a fully owned Company subsidiary, as follows:

For participation in meetings of the Sun D'Or Board of Directors and/or of any of its committees at the fixed sum as appears in the third addendum to the Remuneration Regulations, in accordance with Sun D'Or's grade according to the first addendum to the Remuneration Regulations, as determined from time to time. Remuneration for participation in meetings via telecommunications shall be 60% of the remuneration for participation in the meeting and the remuneration for a decision passed without actually convening shall be 50% of the remuneration for participating in the meeting.

Yearly remuneration is at the fixed sum appearing in the second addendum to the Remuneration Regulations, in accordance with Sun D'Or's grade according to the first addendum to the Remuneration Regulations, as determined from time to time.

Ms. Kimmerling and her spouse shall be entitled to flight tickets on Sun D'Or flights – one ticket per year free of charge and three tickets per year at 10% of the price of a ticket sold on the internet.

(3) To ratify the employment of Nimrod Borovich, CPA, son of Mr. David Borovich (husband of Mrs. Tamar Mozes Borovich) and nephew of Prof. Israel (Izzy) Borovich, a controlling party at the Company, as manager of a strategic partnership project at the Company in return for a gross monthly salary of NIS 25,000 and associated benefits, as specified in the employment report attached to the Company's January 22, 2009 immediate report.

(4) To approve the appointment of Ms. Yodfat Harel-Gross to the Company's Board of Directors for a term of service to conclude at the Company's next annual General Meeting. In light of the approval of the monetary remuneration to Company directors detailed above, Ms. Har'el-Gross is entitled to the remuneration in question upon her appointment as director.

c. Service Agreement and Option Issue to the Chairman of the Company's Board of Directors

(1) Service Agreement

On April 30 2009 the Audit Committee and the Company's Board of Directors decided to approve the Company's entry into an agreement with the Chairman of the Board – Mr. Amikam Cohen (hereinafter – "the Chairman of the Board") for the provision of Chairman services retroactively starting February 1 2009 (hereinafter – "the Service Agreement"). The Chairman of the Board shall provide the Company with active Chairman services as expected in publicly-owned companies in the field of activity of the Company and of its subsidiaries (hereinafter – "the Services"). In return for the services, the Chairman shall be entitled to the following:

a. A monthly salary of NIS 90,000 plus VAT linked to the CPI (hereinafter – "the Remuneration");

b. 4,650,000 non-tradable options exercisable as 4,650,000 regular NIS 1 par value shares (see Share Based Payment below) ;

c. Benefits pertaining to the receipt of flight tickets from the Company;

d. Reasonable expense refunds for travel, hosting and mobile telephone expenses made by the Chairman in the context of the services subject to the law and in accordance with Company procedure.

The remuneration and the remaining benefits and payments detailed above constitute full remuneration to the Chairman for the provision of services, including for his services as Company director, and with the exception of these he shall be entitled to no additional benefit and/or wage and/or remuneration from the Company of any form, including directors' salary (participation remuneration and yearly remuneration) for the services of the Chairman of the Board as a Company director.

(2) Share Based Payment

On April 30 2009, the Company Audit Committee and the Board of Directors decided to approve the issue of non-tradable options to the Chairman of the Company's Board of Directors (hereinafter – "the Option Plan"). The options shall be granted in the framework of the agreement to provide services as Chairman of the Company's Board of Directors

The Company shall grant the Chairman of the Board 4,650,000 non-tradable options exercisable as 4,650,000 regular NIS 1 par value Company shares (hereinafter – "the Exercise Shares"). The options shall be allocated free of charge. Assuming the exercise of all the options, the Exercise Shares shall constitute 0.95% of the Company's paid-up capital (including fully diluted). The Company has the option of stating that exercise of the options shall take place in return for Company shares of an amount reflecting the sum of the financial benefit embodied in the options alone (cashless exercise) and in the event that the Company chooses this option, the amount of shares actually issued shall be smaller than the rate denoted above.

The exercise price of each option shall be NIS 0.885, the closing price of a Company share on February 1 2009, which is when the Chairman of the Board began his tenure, subject to adjustments established in the Option Plan.

The right to exercise the option shall vest in three portions which shall vest throughout the Chairman of the Board's service at the Company, as follows:

a. 12 months from the beginning of the Chairman's service, that being February 1 2009 (hereinafter – "the Allocation Date"), the Chairman of the Board shall acquire vesting for the exercise of 1/3 of the options. In this regard it is hereby made clear that if the end of the Chairman's tenure falls before one year from the allocation date, the Chairman shall not be entitled to any options.

b. 2 years from the allocation date, the Chairman shall accumulate vesting for an additional 1/3 of the options.

c. 3 years from the allocation date, the Chairman shall accumulate vesting for an additional 1/3 of the options.

d. Starting from the end of the first year from the allocation date, in the event of the discontinuation of the Chairman's service prior to the passing of two or three years, the Chairman of the Board shall be entitled to a relative portion of the options as stated in paragraphs B and C above, in such a manner that every three months after the end of the first year since the allocation date, the Chairman of the Board shall be entitled to exercise an additional 387,500 options.

The Chairman of the Board shall be entitled to exercise any option portion vesting as Company shares, starting from the vesting date of each portion until 26 months from the vesting date of each portion (hereinafter as regards vested options – "the Exercise Period"), except if the options or any portion thereof expired prior to the exercise period, all in accordance with the Options Plan. All options granted to the Chairman of the Board and not exercised by him into Company shares by the end of the exercise period shall expire and may not be exercised.

(3) Assessing Fair Value of Options

The fair value of the above options is assessed using the application of the Black & Scholes model and the Binomial options pricing model. In this framework, the Company did not take into account the influence of the vesting conditions, with the exception of market conditions, on the fair value of the capital instruments granted.

On June 24 2009 the General Meeting ratified the Service Agreement and option issue to the

Chairman of the Company's Board of Directors. The value of the options, based on the following parameters, for the date on which the option plan was approved by the Company's General Meeting was NIS 1.3 million (some $332,000 on that date).

Parameters used in the application of the model, as of June 24 2009:

Share price (in NIS)	0.879
Exercise price (in NIS)	0.885
Expected fluctuation (*)	42% - 45%
Option lifespan (in years) (*)	2.4 - 3.7
Risk-free interest rate	2.3% - 3.3%
Expected dividend rate	0%

(*) The expected fluctuation is determined based on historic fluctuations in the price of the Company's share. The lifespan of the options is determined in accordance with the assumption that their exercise is expected to take place in the average period between the vesting period and the end of the options' lifespan.

d. In a special General Meeting of the Company's shareholders held on June 24 2009, the following was decided:

(1) To ratify the Company's service agreement, detailed in 6.c above, with the Chairman of the Board – Mr. Amikam Cohen.
(2) To ratify the appointment of Mr. Pinchas Ginsburg as Director on the Company's Board of Directors for a tenure to conclude with the Company’s next annual General Meeting.
(3) To ratify Amendment 110 to the Company's Articles, regarding the increase of the maximum number of directors in the Company's Board of Directors.
(4) To ratify the appointment of Mr. Shlomo Hannael as Director on the Company's Board of Directors for a tenure to conclude with the Company’s next annual General Meeting.

Note 7 - Segment-Based Reporting

a. General:

The Group has applied IFRS 8, "Operating Segments" (hereinafter "IFRS 8") starting January 1 2009. According to IFRS 8, operational segments are identified based on internal reports on the Group's components, which are reviewed on a regular basis by the Group's chief operational decision maker for the purpose of allocating resources and assessing the performance of the operational segments.

On the other hand, the previous standard (IAS 14, "Segment Based Reporting") required that entities recognize two segment arrays (business and geographical), based on the risk and yield method, with the internal financial reporting system for the entity's key administrative personnel serving only as an starting point for the recognition of the above segments. As a result of the adoption of the new standard, the Group has recognized reportable segments different from those presented in earlier reporting periods.

Prior to the adoption of the new standard, segment-based information reported externally was analyzed based on flight routes, aviation rights and global representation. Accordingly, the Company reported geographical segments in a primary reporting format, which included the following geographical areas: North America, Europe, Far East and Central Asia and the rest of the world. At the same time, the reports are conveyed to the Group's chief operational decision maker, for the purpose of allocating resources and assessing the performance of the operational segments based on the difference between revenues from passenger aircraft, cargo aircraft, aircraft leasing (mainly to subsidiary Sun D'Or) and other revenues.

In light of the above, the following are the Company's reported operating segments in accordance with IFRS 8:

Segment A – passenger aircraft activity.

Segment B – cargo aircraft activity.

Segment C – others.

Passenger aircraft activity includes revenues (without deducting discounts) from the transport of passengers including baggage, transporting freight in the belly of passenger aircraft, mail transport and the contribution from the sale of duty free products.

Cargo aircraft activity includes revenues from airborne cargo shipping fees.

Other Company activities include revenues from the leasing of aircraft to subsidiary Sun D'Or (which are written off in the "Adjustments to Consolidated" column), revenues from maintenance service provided to outside elements as well as a broad variety of services and revenues such as equipment leasing, frequent flier membership fees, loading and unloading services and more.

Information referring to these segments is reported below. Sums reported for previous reporting periods were restated according to the new segment reporting base.

b. Analysis of revenues and results according to operating segments:

Segment-based earnings represent the contribution made by each segment. Each segment's contribution is determined as follows: revenues created from operating segments less variable expenses involved in the operation of passenger airplane and cargo airplane flights, which include, *inter alia*, fuel expenses (not including fair value changes of jet fuel hedging agreements); airport fees and taxes, variable maintenance costs, air navigation and communication, passenger food and supplies, aircraft leasing fees, discounts and commissions granted passengers or paid to travel agents, air crew expenses including salaries and variable security costs.

Unassigned costs primarily include depreciation costs, salary costs – with the exception of air crew costs – and other fixed costs.

	For the Six Month Period Ended June 30 2009				
	Passenger Aircraft	Cargo Aircraft	Others	Adjustments	Total
	Millions of Dollars				
	(Unaudited)				
Revenues					
Revenues from external customers	669.1	31.1	18.6	-	718.8
Inter-segment revenues	-	-	25.8	(25.8)	-
Adjustments to consolidated	-	-	-	27.3	27.3
Total segment revenues	669.1	31.1	44.4	1.5	746.1
Segment results	122.7	(1.4)	19.4	-	140.7
Unassigned expenses					(207.6)
Operational loss					(66.9)
Financing expenses					(14.5)
Financing income					4.6
The Company's share of the losses of investees, net					-
Loss before income taxes					(76.8)
Tax benefit					17.2
Loss for the period					(59.6)

	For the Six Month Period Ended June 30 2008				
	Passenger Aircraft	Cargo Aircraft	Others	Adjustments	Total
	Millions of Dollars				
	(Unaudited)				
Revenues					
Revenues from external customers	891.9	84.7	21.6	-	998.2
Inter-segment revenues	-	-	32.5	(32.5)	-
Adjustments to consolidated	-	-	-	28.5	28.5
Total segment revenues	891.9	84.7	54.1	(4.0)	1,026.7
Segment results	169.5	7.0	22.5	-	199.0
Unassigned expenses					(266.2)
Operational loss					(67.2)
Financing expenses					(28.7)
Financing income					19.1
The Company's share of the losses of investees, net					0.1
Loss before income taxes					(76.7)
Tax benefit					13.9
Loss for the period					(62.8)

	For the Three Month Period Ended June 30 2009				
	Passenger Aircraft	Cargo Aircraft	Others	Adjustments	Total
	Millions of Dollars				
	(Unaudited)				
Revenues					
Revenues from external customers	363.7	11.9	8.8	-	384.4
Inter-segment revenues	-	-	14.2	(14.2)	-
Adjustments to consolidated	-	-	-	15.0	15.0
Total segment revenues	363.7	11.9	23.0	0.8	399.4
Segment results	69.3	(0.7)	9.2	-	77.8
Unassigned expenses					(102.3)
Operational loss					(24.5)
Financing expenses					(10.0)
Financing income					3.0
The Company's share of the losses of investees, net					-
Loss before income taxes					(31.5)
Tax benefit					11.8
Loss for the period					(19.7)

	For the Three Month Period Ended June 30 2008				
	Passenger Aircraft	Cargo Aircraft	Others	Adjustments	Total
	Millions of Dollars				
	(Unaudited)				
Revenues					
Revenues from external customers	492.5	36.1	10.7	-	539.4
Inter-segment revenues	-	-	17.9	(17.9)	-
Adjustments to consolidated	-	-	-	18.1	18.1
Total segment revenues	492.5	36.1	28.6	0.2	557.5
Segment results	91.7	3.4	10.9	-	106.0
Unassigned expenses					(125.8)
Operational loss					(19.8)
Financing expenses					(13.3)
Financing income					16.5
The Company's share of the losses of investees, net					-
Loss before income taxes					(16.6)
Tax benefit					3.8
Loss for the period					(12.8)

	For the Year Ended December 31 2008				
	Passenger Aircraft	Cargo Aircraft	Others	Adjustments	Total
	Millions of Dollars				
Revenues					
Revenues from external customers	1,832	139.5	51.1	-	2,022.6
Inter-segment revenues	-	-	76.4	(76.4)	-
Adjustments to consolidated	-	-	-	73.7	73.7
Total segment revenues	1,832	139.5	127.5	(2.7)	2,096.3
Segment results	436.2	8.7	57.7	-	502.6
Unassigned expenses					(508.3)
Operational loss					(5.7)
Financing expenses					(61.5)
Financing income					17.0
The Company's share of the losses of investees, net					0.5
Loss before income taxes					(49.7)
Tax benefit					7.8
Loss for the year					(41.9)

Note 8 - Retroactive Adjustments due to Retroactive Application of Changes in Accounting Policy

a. Liabilities Due to Frequent Flier Programs

Until December 31 2008, the provision for frequent flier clubs was calculated based on an estimate of the effective costs to the Company as a result of the use of the benefits awarded by the plans in question, while using the probability estimate to take advantage of the benefits. The effective cost was based on the estimate of the expected relative weight, in Management's opinion, of the marginal expenses the Company may bear and of the loss of alternative revenues deriving from the rejection of paying customers, in the realization of the benefits in question.

Starting January 1 2009, the Group has applied IFRIC 13 regarding customer loyalty programs. This clarification states that flight ticket sales transactions in which the Company awarded its customers frequent flier points (hereinafter – "the Points"), which may be used in the future for flight tickets, shall be treated as multi-component transactions, and the payment received from the customer will be allocated to its different components based on the fair value of the credit award, with the remnant charged to the ticket. The proceeds charged to points shall be recognized as income when the points are redeemed and the Company's obligation to provide the service is upheld. In determining the fair value of frequent flier points awarded Company customers, the Company based its calculations on the sales price (after adjustments) of frequent flier points sold to business partners.

b. Employee Benefits due to Vacations

Up until December 31 2008, the vacation provision was calculated while differentiating between short term and long term vacations, this based on Company management's estimates regarding the timing of the exercise of vacation days of Company employees. Under this assumption, the provision to long term vacation was calculated using actuary estimates. The Company's liability for total employee vacation days was presented in the framework of liabilities due to employee benefits in the framework of the Company's current liabilities.

Starting January 1 2009, the Company has applied the revision to IAS 19, "Employee Benefits." This revision states that accumulated entitlement to compensation due to absences shall be classified as a short term employee benefit, or as a long term employee benefit based on the date on which the employee received the right to the benefit.

As a result, the Company presents vacation benefits as short term employee benefits, equal to the non-capitalized sum the Company expects to pay for the exercise of this right, while taking into account pay raises expected within a year of the balance sheet date.

c. The influence of the retroactive adjustment on the report items on the financial status:

	As of June 30 2008				
	As Reported in the Past	Impact of Retroactive Application Due to Frequent Flier Program	Impact of Retroactive Application Due to Employee Vacation Benefits	Reclassification	As Reported in These Financial Statements
	Thousands of Dollars (Unaudited)				
Short term provisions	(99,798)	(51,258)	-	74,649	(76,407)
Prepaid expenses	33,919	4,730	-	4,626	43,275
Other receivables	25,788	-	-	(4,626)	21,162
Short-term employee benefit obligations	(87,988)	-	(10,349)	-	(98,337)
Short term deferred income	(287,637)	-	-	(25,466)	(313,103)
Deferred tax liability	(77,901)	11,632	2,731	-	(63,538)
Long term deferred income	-	-	-	(49,183)	(49,183)
Accumulated loss	173,986	34,896	7,618	-	216,500

	As of December 31 2008				
	As Reported in the Past	Impact of Retroactive Application Due to Frequent Flier program	Impact of Retroactive Application Due to Employee Vacation Benefits	Reclassification	As Reported in These Financial Statements
	Thousands of Dollars				
Short term provisions	(81,076)	(53,873)	-	77,900	(57,049)
Other receivables	23,523	-		(3,830)	19,693
Prepaid expenses	19,247	4,615	-	3,830	27,692
Short-term employee benefit obligations	(80,174)	-	(7,756)	-	(87,930)
Short term deferred income	(172,445)	-	-	(25,466)	(197,911)
Deferred tax liability	(16,203)	12,314	2,017	-	(1,872)
Long term deferred income	-	-	-	(52,434)	(52,434)
Accumulated loss	152,969	36,944	5,739	-	195,652

d. The influence of the retroactive adjustment on the report items on gain/loss:

	For the Six Month Period Ending June 30 2008			
	As Reported in the Past	Impact of Retroactive Application Due to Frequent Flier program	Impact of Retroactive Application Due to Employee Vacation Benefits	As Reported in These Financial Statements
	Thousands of Dollars			
	(Unaudited)			
Operating revenues	1,028,488	(1,778)	-	1,026,710
Operating expenses	(899,979)	-	(2,783)	(902,762)
Selling expenses	(116,569)	1,025	(117)	(115,661)
General and administrative expenses	(51,087)	-	(235)	(51,322)
Loss before income taxes	(72,771)	(753)	(3,135)	(76,659)
Tax benefit	12,932	188	783	13,903
Loss for the period	(59,839)	(565)	(2,352)	(62,756)
Loss per share (NIS 1 par value) in USD				
Basic loss per share	(0.12)	-	(0.01)	(0.13)
Diluted loss per share	(0.12)	-	(0.01)	(0.13)

	For the Three Month Period Ending June 30 2008			
	As Reported in the Past	Impact of Retroactive Application Due to Frequent Flier program	Impact of Retroactive Application Due to Employee Vacation Benefits	As Reported in These Financial Statements
	Thousands of Dollars			
	(Unaudited)			
Operating revenues	557,022	434	-	557,456
Operating expenses	(485,205)	-	(1,843)	(487,048)
Selling expenses	(60,577)	(462)	(78)	(61,117)
General and administrative expenses	(26,172)	-	(157)	(26,329)
Loss before income taxes	(14,503)	(28)	(2,078)	(16,609)
Tax benefit	3,264	7	580	3,851
Loss for the period	(11,239)	(21)	(1,498)	(12,758)
Loss per share (NIS 1 par value) in USD				
Basic loss per share	(0.02)	-	(0.01)	(0.03)
Diluted loss per share	(0.02)	-	(0.01)	(0.03)

	For the Year Ending December 31 2008			
	As Reported in the Past	Impact of Retroactive Application Due to Frequent Flier program	Impact of Retroactive Application Due to Employee Vacation Benefits	As Reported in These Financial Statements
	Thousands of Dollars			
Operating revenues	2,101,065	(4,739)	-	2,096,326
Operating expenses	(1,775,849)	-	(480)	(1,776,329)
Selling expenses	(228,808)	1,255	(20)	(227,573)
General and administrative expenses	(97,063)	-	(40)	(97,103)
Loss before income taxes	(45,684)	(3,484)	(540)	(49,708)
Tax benefit	6,862	871	68	7,801
Loss for the year	(38,822)	(2,613)	(472)	(41,907)
Loss per share (NIS 1 par value) in USD				
Basic loss per share	(0.08)			(0.08)
Diluted loss per share	(0.08)			(0.08)

Note 9 - Seasonality

Passenger traffic through Ben Gurion Airport is characterized by a high degree of seasonality. Most activity is during the summer months, peaking in July through September. The winter months (January through March) are characterized by low passenger traffic.

Note 10 - Credit Frameworks

As of June 30 2009 to Company holds credit frameworks to the amount of $35 million. The credit frameworks used as of this report amount to $33 million.

Note 11 - Events Subsequent to the Balance Sheet Date

a. Cargo Aircraft Activity

In July 2009 the Company submitted a request to the Government Companies Authority to receive the approval of the Holding of the Special State Share, as required in accordance with the Company's articles, to remove two 747-200 from Company service, this in light of the Company's intention not to use these aircraft past the end of 2009, among other reasons, due to age and maintenance restrictions.
As reported by the Company, it intends to continue with its cargo activity using the cargo holds of passenger aircraft and designated cargo aircraft, while studying various options for further Company freight operations. The Company established a Board of Directors committee to study the issue of the Company's cargo activity. Note that in June 2009 the Minister of Transportation and Road Safety established a public commission to study the Israeli transportation industry and to study the condition of Israeli airlines dealing in cargo shipping. The Company's representatives have appeared before the commission. In light of the Company's decision not to employ these aircraft subsequent to the end of 2009, the Company accelerated the depreciation expenses of the cargo aircraft, the spare parts and the engines attributed to the cargo fleet. Following the changed estimate in question, the Company recognized depreciation expenses in the current quarter to the amount of $5 million, instead of $3.7 million. In total, the Company will recognize additional depreciation expenses in the third and fourth quarter of the year to the amount of $10 million instead of $7 million.

b. Work Dispute

On July 29 2009, the Company's offices received notice from the New Histadrut [workers' union] – the Professional Union Department ("the Histadrut"), on the basis of the Work Dispute Resolution Law, 1957, according to which the Histadrut has the right to declare a strike starting August 12 2009.
On August 4 2009 the representatives of the Company, the Histadrut and the Company's workers announced that they would be freezing the work dispute, as declared by the Histadrut, this concurrent with the Company's agreement to freeze various moves related to work relationships it took recently. In addition, it was agreed that intensive negotiations would be held between Company Management, the workers' representatives and the Histadrut administration to create a shared streamlining plan benefiting both the Company and its employees.

c. Changes in Corporate Tax rates

On July 23 2009 the Economic Streamlining Law 2009 (Legislative Changes to Implement the 2009 and 2010 Economic Plan) (hereinafter - "the Arrangements Law") was published. According to the Arrangements Law, corporate tax rates will gradually decrease starting 2011, for which a tax rate of 24% was set, to tax year 2016, for which a corporate tax rate of 18% was set.
The influence of the Arrangements Law on deferred tax balances will be expressed in the Financial Statements for the third quarter of 2009. Based on the Company’s temporary margins and those of its subsidiaries immediately prior to the publication of the Arrangements Law, the Company's loss is expected to drop to $1.6 million.