Translation of the Hebrew Language financial statements

EL AL ISRAEL AIRLINES LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007

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C o n t e n t s

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

We have audited the attached balance sheets of El Al Israel Airlines Ltd. ("the Company") as of December 31, 2007 and 2006 and the consolidated balance sheets as of those dates, and the statements of operations, changes in shareholders' equity and cash flows - of the Company and on a consolidated basis - for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of subsidiaries, whose assets included in consolidation constitute 0.6% and 0.9% of total consolidated assets as of December 31, 2007 and 2006, respectively, and whose revenues constitute 0.5% of total consolidated revenues for the year ended December 31, 2007 and 0.4% of total consolidated revenues for each of the two years ended December 31, 2006, respectively. The financial statements of those subsidiaries were audited by other auditors, and our opinion, insofar as it relates to the amounts included in respect thereof, is based on the reports of those other auditors.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed by the Israeli Auditors' Regulations (Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors as noted above, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and on a consolidated basis – as of December 31, 2007 and 2006, and the results of operations, changes in shareholders' equity and cash flows- of the Company and on a consolidated basis - for each of the three years in the period ended December 31, 2007, in conformity with generally accepted accounting principles. In addition, it is our opinion that the financial statements referred to above are prepared in accordance with the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

As explained in Note 2b, the financial statements referred to above are presented in U.S. dollars, in accordance with accounting standards of the Israeli Accounting Standards Board.

Without qualifying our above opinion, we draw attention to the contents of Note 17a to the financial statements with regard to the Company's exposure to lawsuits approved as class actions, the contents of Note 17b to the financial statements with regard to additional legal proceedings against the Company, and the contents of Note 2z to the financial statements with regard to the restatement of the financial statements as of December 31, 2006 and for the year then ended, and as of December 31, 2005 and for the year then ended, due to the first-time application of Accounting Standard No. 27 – Fixed Assets and for the correction of deferred tax liabilities.

The accompanying financial statements are a translation of the original Hebrew-language audited financial statements.

Brightman Almagor & Co
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu

Tel Aviv, March 25, 2008

EL AL ISRAEL AIRLINES LTD.
BALANCE SHEETS

		Consolidated		Company	
		December 31,		December 31,	
		2007	2006	2007	2006
	Note	(in thousand US dollars)			
Current assets					
Cash and cash equivalents		86,670	146,158	80,727	139,408
Short-term investments	3	180,633	4,682	179,435	4,000
Trade accounts receivable	4	143,617	132,544	140,276	129,000
Receivables and other current assets	5	51,953	47,342	53,415	49,394
Deferred income taxes	22d	19,569	30,645	19,169	30,171
Inventory	6	15,981	17,190	15,379	16,464
		498,423	378,561	488,401	368,437
Investments					
Long-term bank deposits and investment in another company	7	3,922	3,665	3,922	3,665
Investees	8	2,268	2,280	11,444	11,275
		6,190	5,945	15,366	14,940
Fixed assets	9	1,286,421	* 1,176,528	1,284,371	* 1,174,355
Other assets	10	3,719	3,455	3,719	3,455
		1,794,753	1,564,489	1,791,857	1,561,187

(*) Restated – see Note 2z.

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

EL AL ISRAEL AIRLINES LTD.

	Note	Consolidated		Company	
		December 31,		December 31,	
		2007	2006	2007	2006
		(in thousand US dollars)			
Current liabilities					
Short-term borrowings and current maturities	11	66,316	105,100	66,316	105,100
Trade accounts payable	12	167,420	144,990	167,478	145,441
Payables and other current liabilities	13	407,842	332,691	404,508	328,982
Dividend proposed for payment	19h	3,009	-	3,009	-
		644,587	582,781	641,311	579,523
Long-term liabilities					
Long-term loans from financial institutions	14	713,793	566,104	713,793	566,104
Accrued severance pay, net	15	70,936	126,171	71,198	126,412
Deferred income taxes	22d	72,510	* 74,603	72,796	* 74,506
Other long-term liabilities	16	423	730	255	542
		857,662	767,608	858,042	767,564
Total liabilities		1,502,249	1,350,389	1,499,353	1,347,087
Contingent liabilities, guarantees, commitments and liens	17,18				
Shareholders' equity	19				
Share capital		155,012	131,536	155,012	131,536
Premium on shares		9,248	904	9,248	904
Capital reserve from transactions with a former controlling party		243,787	* 218,498	243,787	* 218,498
Capital reserve from employees' option plan		4,464	2,582	4,464	2,582
Accumulated loss		(120,007)	* (139,420)	(120,007)	* (139,420)
		292,504	214,100	292,504	214,100
		1,794,753	1,564,489	1,791,857	1,561,187

(*) Restated – see Note 2z.

Prof. Israel (Izzy) Borovich	Haim Romano	Nissim Malki
Chairman of the Board	Chief Executive Officer	Chief Financial Officer

Approval date of financial statements - March 25, 2008.

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

EL AL ISRAEL AIRLINES LTD.
STATEMENTS OF OPERATIONS

	Note	Consolidated			Company		
		Year ended December 31,			Year ended December 31,		
		2007	2006	2005	2007	2006	2005
		(in thousand US dollars)					
Operating revenues	21a	1,932,450	1,665,446	1,619,469	1,917,885	1,654,373	1,608,447
Operating expenses	21b	1,539,658	* 1,394,159	* 1,245,570	1,529,961	* 1,389,001	* 1,241,236
Gross profit		392,792	271,287	373,899	387,924	265,372	367,211
Selling expenses	21d	230,637	187,805	198,591	230,262	187,371	197,945
General and administrative expenses	21e	90,781	91,952	88,758	85,313	86,335	83,349
		321,418	279,757	287,349	315,575	273,706	281,294
Operating income (loss) before net financing expenses		71,374	(8,470)	86,550	72,349	(8,334)	85,917
Net financing expenses	21f	33,393	29,492	20,606	33,843	29,732	20,727
Operating income (loss) after net financing expenses		37,981	(37,962)	65,944	38,506	(38,066)	65,190
Other income (expenses), net	21g	2,423	* (2,764)	(4,519)	2,418	* (2,746)	(4,628)
Pre-tax income (loss)		40,404	(40,726)	61,425	40,924	(40,812)	60,562
Income taxes	22	(9,001)	* 6,397	* (13,060)	(9,292)	* 6,531	* (12,756)
Income (loss) after income taxes		31,403	(34,329)	48,365	31,632	(34,281)	47,806
Company's equity in earnings of affiliates, net	21h	332	417	633	103	369	1,192
Net income (loss) for the year		31,735	(33,912)	48,998	31,735	(33,912)	48,998
Basic earnings (loss) per share of NIS 1 par value (in US dollars):	21i	0.07	* (0.08)	* 0.12			
Number of shares used in computation (in thousands)-basic		476,289	400,680	399,633			
Diluted earnings (loss) per share of NIS 1.00 par value (in US dollars):	21i	0.06	* (0.08)	* 0.10			
Number of shares used in computation (in thousands)-diluted		495,934	400,680	495,721			

(*) Restated - see Note 2z

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

EL AL ISRAEL AIRLINES LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Premium on shares	Capital reserve from transactions with a former controlling party	Capital reserve from employees' option program	Differences from translation of investees' financial statements	Accumulated loss	Total
	(IN THOUSAND US DOLLARS)						
Balance - January 1, 2005	130,940	699	* 191,932	-	2,232	* (154,506)	*171,297
Differences from the translation of investees' financial statements	-	-	-	-	(104)	-	(104)
Realization of investment in an investee	-	-	-	-	(2,128)	-	(2,128)
Receipts on account of Government of Israel debt (3)	-	-	25,791	-	-	-	25,791
Exercise of options into shares	378	127	-	-	-	-	505
Net income for the year	-	-	-	-	-	* 48,998	* 48,998
Balance - December 31, 2005	131,318	826	* 217,723	-	-	* (105,508)	*244,359
Receipts on account of Government of Israel debt (3)	-	-	775	-	-	-	775
Exercise of options into shares (2)	218	78	-	-	-	-	296
Value of benefit of employee option plan (1)	-	-	-	2,582	-	-	2,582
Loss for the year	-	-	-	-	-	* (33,912)	* (33,912)
Balance - December 31, 2006	131,536	904	*218,498	2,582	-	* (139,420)	*214,100
Receipts on account of Government of Israel debt (3)	-	-	25,289	-	-	-	25,289
Exercise of options into shares (2)	23,476	8,344	-	-	-	-	31,820
Value of benefit of employee option plan (1)	-	-	-	1,882	-	-	1,882
Dividend distributed (4)	-	-	-	-	-	(9,313)	(9,313)
Dividend declared (5)	-	-	-	-	-	(3,009)	(3,009)
Net income for the year	-	-	-	-	-	31,735	31,735
Balance - December 31, 2007	155,012	9,248	243,787	4,464	-	(120,007)	292,504

* Restated – see Note 2z.
(1) See Note 19i
(2) See Note 19c.
(3) See Note 15b3b
(4) See Note 19h1
(5) See Note 19h2

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

EL AL ISRAEL AIRLINES LTD.
STATEMENTS OF CASH FLOWS

	Consolidated			Company		
	Year ended December 31,			Year ended December 31,		
	2007	2006	2005	2007	2006	2005
	(in thousand US dollars)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income (loss) for the year	31,735	* (33,912)	* 48,998	31,735	* (33,912)	* 48,998
Adjustments required to present net cash flows provided by operating activities - Appendix A	223,795	* 132,344	* 153,056	223,858	* 132,257	* 151,618
Net cash provided by operating activities, before deposit of proceeds from exercise of options in severance pay fund to cover past liabilities	255,530	98,432	202,054	255,593	98,345	200,616
Deposit of proceeds from exercise of options in severance pay fund to cover past liabilities	(24,376)	(296)	(535)	(24,376)	(296)	(535)
Net cash provided by operating activities	231,154	* 98,136	* 201,519	231,217	* 98,049	* 200,081
CASH FLOWS FOR INVESTING ACTIVITIES						
Investment in other assets	(644)	(1,188)	(1,485)	(644)	(1,188)	(1,485)
Additions to fixed assets (including engine overhauls and payments on account of aircrafts)	(248,558)	* (128,894)	*(100,722)	(248,141)	* (128,459)	* (100,327)
Proceeds from disposition of fixed assets	504	6,965	954	496	6,955	883
Decrease (increase) in short-term deposits, net	(175,951)	107,912	(26,428)	(175,435)	107,500	(26,000)
Investment in service providers' deposits	(131)	(82)	(121)	(131)	(82)	(121)
Repayment of service providers' deposits	245	73	130	245	73	130
Redemption of long-term deposits	225	560	678	225	560	678
Investments in long-term deposits	(398)	(226)	(368)	(398)	(226)	(368)
Proceeds from realization of investments in investees	-	-	13,656	-	-	13,656
Decrease (increase) in investments and loans to investees, net	-	326	151	(411)	964	227
Dividend received net of equity in affiliates' earnings, net**	12	-	-	242	-	-
Refund of investment in fixed assets	3,843	-	-	3,843	-	-
Net cash used in investing activities	(420,853)	* (14,554)	*(113,555)	(420,109)	* (13,903)	* (112,727)
CASH FLOWS FOR FINANCING ACTIVITIES						
Proceeds from exercise of options for shares	31,820	296	505	31,820	296	505
Receipt of long-term loans from financial institutions	219,420	40,000	14,169	219,420	40,000	14,169
Repayment of long-term loans from financial institutions	(101,267)	(67,745)	(77,160)	(101,267)	(67,745)	(77,160)
Receipt of other long-term loans	98	1,014	-	98	1,014	-
Repayment of other long-term loans	(2,309)	(2,248)	(2,017)	(2,309)	(2,248)	(2,010)
Payment of loan arrangement fees	(7,570)	(1,080)	-	(7,570)	(1,080)	-
Increase (decrease) in short-term borrowings, net	(668)	(1,590)	5,821	(668)	(1,590)	5,821
Dividend paid	(9,313)	-	-	(9,313)	-	-
Net cash provided by (used in) financing activities	130,211	(31,353)	(58,682)	130,211	(31,353)	(58,675)
Increase (decrease) in cash and cash equivalents	(59,488)	52,229	29,282	(58,681)	52,793	28,679
Cash and cash equivalents - beginning of year	146,158	93,929	64,647	139,408	86,615	57,936
Cash and cash equivalents –end of year	86,670	146,158	93,929	80,727	139,408	86,615
* Restated – see Note 2z						
**Dividend received	345	-	-	345	-	-

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

EL AL ISRAEL AIRLINES LTD.
STATEMENTS OF CASH FLOWS

Appendix A – Adjustment to present cash flows provided by operating activities

	Consolidated			Company		
	Year ended December 31,			Year ended December 31,		
	2007	2006	2005	2007	2006	2005
	(in thousand US dollars)					
Income and expenses not involving cash flows:						
Depreciation and amortization (including disposals of accessories and components no longer in use and consumption of disposable equipment)	135,777	* 134,150	* 128,541	135,240	* 133,650	* 127,956
Adjustment in value of long-term deposits	(198)	(151)	108	(198)	(151)	108
Equity in earnings of investees, less dividend received, net (**)	-	(417)	(273)	-	(369)	(832)
Deferred income taxes	8,983	* (6,510)	* 12,679	9,292	* (6,531)	* 12,756
Decrease in accrued severance-pay, net	(4,586)	(963)	(9,763)	(4,565)	(1,033)	(9,715)
Capital losses (gains) from disposition of fixed assets, net	1,440	* (1,642)	(590)	1,445	* (1,659)	(585)
Capital gain from realization of investment in investees	-	-	(8,297)	-	-	(8,297)
Adjustment in value of service providers' deposits	-	58	(51)	-	58	(51)
Value of benefit of employee options plan	1,882	2,582	-	1,882	2,582	-
Changes in assets and liabilities:						
Increase in trade accounts receivable	(11,073)	(4,327)	(15,521)	(11,276)	(3,178)	(16,067)
Decrease (increase) in receivables and other current assets	(6,216)	93	(13,233)	(5,626)	(1,380)	(12,827)
Decrease (increase) in inventory	1,209	5,255	(12,970)	1,085	5,369	(12,941)
Increase (decrease) in trade accounts payable	22,430	(11,573)	18,920	22,037	(11,723)	18,248
Increase in other current liabilities	74,167	15,824	53,566	74,542	16,622	53,865
Decrease in other long-term liabilities	(20)	(35)	(60)	-	-	-
	223,795	132,344	153,056	223,858	132,257	151,618

(*) Restated – see Note 2z

(**) Dividends received that were deducted	-	-	360	-	-	360

Appendix B – Non- cash transactions

	Consolidated			Company		
	Year ended December 31,			Year ended December 31,		
	2007	2006	2005	2007	2006	2005
	(in thousand US dollars)					
Deposits made by the Government of Israel in an employees' severance-pay fund (Note 15b.3.b)	25,289	775	25,791	25,289	775	25,791
Dividend declared and paid subsequent to balance sheet date	3,009	-	-	3,009	-	-

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

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL

a. Operations

EL AL Israel Airlines Ltd (hereafter-"the Company") was incorporated on November 15, 1948 as a public company. The Company is the Israeli designated carrier on most routes to and from Israel, other than a number of routes on which other Israeli carriers were granted the status of designated carriers (see Note 10c). An additional Israeli carrier was also granted a certificate as a cargo carrier.

Regarding the change in the Company's status as designated carrier subsequent to the balance sheet date - see Note 26.1.

The Company is primarily engaged in the transport of passengers and cargo, including luggage and mail, on scheduled flights and charter flights between Israel and foreign countries. Passenger transport on charter flights is carried out mainly by Sun D'Or International Airlines Ltd (hereafter - "Sun D'Or"), a wholly owned subsidiary of the Company.

The Company is also engaged in leasing flight equipment, providing luggage-handling and maintenance services at its home airport, sale of duty-free products and - through investees - in related activities, mainly production and supply of airline meals and management of several travel agencies in Israel and abroad.

The financial statements of the Company have been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

b. Privatization

1. Starting June 6, 2004 EL AL is defined as a “mixed company” pursuant to the Government Corporations Law, 1975, which defines a “mixed company” as one that is not a government corporation, with half or less than half of the voting rights in its General Meetings or the right to appoint half or less than half of its directors, in the hands of the State.
   As of December 31, 2007, the State holds only 1.1% of the ownership and voting rights in the Company (as of December 31, 2006: 20.97%), in addition to the rights derived from the Special State Share it holds.

2. On June 2, 2004, following the exercise of options that it had held for shares of the Company, K’nafaim Holdings Ltd. (“K’nafaim”) became an interested party in the Company.
   In January, 2005, the Company’s Board of Directors appointed Prof. Israel (Izzy) Borovich as its chairman and Mrs. Tamar Mozes Borovich as deputy chairman of the board. In addition, new directors were appointed, replacing all the former ones whose appointment were terminated at that time (except for public directors). Accordingly, starting at that time, K’nafaim became the Company’s controlling party.

   As of December 31, 2007, K'nafaim holds 39.33% of the ownership and voting rights in the Company (as of December 31, 2006: 39.49%).

NOTE 1 - GENERAL (Cont.)

b. Privatization (cont.)

3. On February 23, 2005, a company established by the Company's employees called "Holdings in Trust of EL AL Employees Ltd." (hereafter-"the Employees Corporation") acquired from the Government of Israel a total of 32,527,216 ordinary shares, pursuant to an undertaking document granted by the State to the employees' representatives. Thus the Employees Corporation became an interested party in the Company. As of December 31, 2007, the Employees Corporation held 6.56% of the Company's issued and outstanding share capital (as of December 31, 2006: 8.12%).

4. On August 5, 2004 the Company was informed by the Commissioner for Restrictive Trade Practices ("the Commissioner") of his decision concerning the merger between K'nafaim and EL AL. According to the decision, K'nafaim would be allowed to increase its holdings of Company shares above 25%, subject to the terms stipulated in the decision, which also stated that since K'nafaim is a shareholder in the Company, it would present any arrangement between EL AL and another Israeli carrier to the approval of the Commissioner. In addition, being a shareholder, K'nafaim would do everything necessary to cease or transfer the charter flights of the Company or any of its subsidiaries, including any activity related to the charter operations of Sun D'Or, to an independent third party wherever the Company operates scheduled flights, other than places where another Israeli carrier also operates scheduled flights.

On January 5, 2005 the Company appealed the Commissioner's decision to the Court for Restrictive Trade Practices while also asking the court for an interim injunction in regard to the conditions stipulated in the Commissioner's decision.

On March 14, 2005, the Company and the Commissioner accepted the court's proposal for a voluntary conclusion of the appeal against the Commissioner's stated conditions. Pursuant to this understanding, it was agreed that the stated condition stipulating that K'nafaim, being a shareholder in the Company, would do everything necessary to cease or transfer the charter flights of the Company wherever the Company operates schedules flights, will not go into effect prior to two years subsequent to March 14, 2005. The condition whereby K'nafaim, being a shareholder in the Company, would present any arrangement between the Company and another Israeli carrier to the approval of the Commissioner will not go into effect prior to the end of the year following March 14, 2005.

The Commissioner would be able, within 120 days preceding the end of the period referred to above, to reimpose any or all of the conditions upon K'nafaim if he believes that a basis for it exists at the time. Before imposing the conditions, the Commissioner will grant the Company the right to a hearing and if the Company appeals the conditions, they will be suspended for a period of six months during which the court will decide on their effect. The parties' agreement was approved by a consent judgment of the Court.

On December 29, 2005, the Commissioner informed the Company that it was considering the imposition on K'nafaim of the condition which states that, being a shareholder in the Company, it would act to submit any arrangement between the Company and another Israeli carrier for the approval of the Commissioner. In addition, the Commissioner required that the Company provide information pertaining to any agreements, arrangements or understandings between the Company and Arkia as well as between the Company and Israir, and on negotiations being carried on between the companies.

NOTE 1 - GENERAL (Cont.)

b. Privatization (cont.)

(4) (cont.)

On March 14, 2006, following the Commissioner's request, the Company decided to consent to a one-year postponement in the period of time allotted to the Commissioner in the compromise arrangement for the imposition of the abovementioned condition (i.e., two years instead of one). The remaining conditions stipulated in the compromise agreement regarding the manner of imposing the condition, as described above, would remain in effect during the period of the deferral.

Following a request by the Commissioner, on January 28, 2007, the Company decided to agree to a deferral for an additional year of the time period allotted by the Commissioner for imposing such condition (that is, three years instead of two).

On March 14, 2008, the period during which the Commissioner was allowed to reimpose the said condition on K'nafaim ended. This condition was not actually imposed and therefore, based on the legal counsel received by the Company, this condition may not be reimposed.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

a. Definitions for these financial statements:

1. **Subsidiary –** a company controlled by the Company in excess of 50%, the financial statements of which are, directly or indirectly, fully consolidated with the Company's financial statements.
2. **Affiliate –** a company, other than a subsidiary, in which the Company exercises material influence and the Company's investment therein is accounted for by the equity method.
3. **Investees** - subsidiaries and affiliates.
4. **The Group -** the Company and its investees.
5. **Another company** – a company in which the Company's investment does not grant the Company material influence over the other company's financial and operating policies.
6. **Related parties -** as defined in Opinion No.29 of the Institute of Certified Public Accountants in Israel.
7. **Interested parties** - as defined in the Securities Regulations (Preparation of Annual Financial Statements), 1993.
8. **Dollar** – the U.S. dollar.
9. **Controlling party** - as defined in the Securities Regulations (Financial Statement Presentation of Transactions between the Company and Its Controlling Party Statements), 1996.
10. **Former controlling party** - on the approval date of these financial statements - the State of Israel.
11. **Date near the approval date of the financial statements** - March 17, 2008, unless otherwise indicated.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Financial statements in U.S. dollars

1. **General**

The financial statements are presented under the historical cost convention in U.S. dollars. The Group companies operating in Israel maintain their accounts, on a current basis, in nominal shekels and dollars. The Company’s overseas branches and the main foreign investees maintain their accounts in foreign currency (mainly dollars). The Group's transactions are mostly carried out in foreign currency, mainly in dollars, with Group revenues received primarily in dollars or linked thereto and its principal fixed assets mainly paid for in dollars. Accordingly, the dollar is the currency of the economic environment in which the Group operates ("functional currency") and thus the currency of measurement in these financial statements.
The term **"cost"** in these financial statements refers to the cost in dollars, unless otherwise stated.

Appendix B to the financial statements is a Hebrew translation of the financial statements converted into shekels, in accordance with Regulation 4 of the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

2. Balance sheet

Balances in other currencies have been translated into dollars, as follows:
Non-monetary items have been translated at the exchange rate of the dollar ("the rate") in effect at acquisition (or origination).
Monetary items (items reflecting current or realizable value) have been translated at the rate in effect on the date of the financial statements.
The values of non-monetary assets do not necessarily represent realization value or economic value in real terms and, therefore, these amounts should not be construed as either representing dollars receivable or payable or convertible into dollars.

3. Statement of operations

Sales revenues and expenses, other than financing and expenses arising from non-monetary items, have been translated at the rate in effect on the transaction date.
Expenses deriving from non-monetary items and components relating to balance-sheet accruals have been translated concurrently with the translation of the corresponding balance-sheet item.
Exchange-rate differences relating to monetary assets and liabilities have been allocated to operations in the net financing expenses section, except for those relating to obligations for the termination of employee-employer relationships, which were recorded to wages and social benefit expenses.

4. Translation of investees’ financial statements

The financial statements of part of the branches abroad and part of the investees, the operations of which are not autonomous, are prepared in local currency and translated as described in items b2 and b3 above. Differences resulting from such financial statement translation differences are, accordingly, included in the statement of operations in the financing section.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Consolidated financial statements

The consolidated financial statements include the financial statements of the Company and all of its (over 50%) controlled companies. Material inter-company balances and transactions have been eliminated.

A list of the main active investees is presented in appendix A to the financial statements.

d. Cash and cash equivalents

Cash and cash equivalents include bank demand deposits as well as unrestricted time deposits with original maturities not exceeding three months.

e. Allowance for doubtful debts

The allowance is computed for specific outstanding amounts, the collection of which – in management's opinion – is doubtful. Doubtful debts having no apparent chance of being collected are written off, based on management's decision.

f. Inventory

As from January 1, 2007, the Company applies Accounting Standard No. 26 – "Inventory".

Inventory is stated at the lower of cost or net realizable value. Inventory cost includes all purchase costs as well as other costs incurred in bringing the inventory to its current location and condition.

Net realizable value represents the estimated sales price in the ordinary course of business net of the estimated costs to completion and estimated costs needed to effect the sale.

Until December 31, 2006, inventory was stated at the lower of cost or market value.

Inventory purchased on credit, which includes a financing element, is stated at cost, which is equivalent to the purchase cost under ordinary credit terms. The difference between the actual purchase amount and the cost equivalent to the purchase cost under ordinary credit terms, is recognized as interest expense in the credit period.

Cost is determined by the weighted moving average method.

The Standard's taking effect did not have an effect on the Company's financial statements.

g. Investment in another company

An investment in another company has been included at cost, which – in management's assessment – does not exceed its fair value.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Investments in investees

Investments in investees have been accounted for by the equity method.

i. Fixed assets

As from January 1, 2007, the Company applies Accounting Standard No. 27, "Fixed Assets" and Accounting Standard No. 28 "Amended Transitional Provisions for Accounting Standard No. 27, Fixed Assets".

Fixed assets are tangible items that are held for use in providing services or to be leased to others, which are expected to be used for more than one period.

The Company states its fixed asset items according to the cost model, as follows:

Fixed asset items are stated in the balance sheet at their cost net of accumulated depreciation and net of accrued impairment losses, if any. The cost includes the asset's purchase cost as well as costs that can be attributed directly to bringing the asset to the location and condition necessary for its operation in the manner intended by management. The cost of qualified assets also include credit costs that should be capitalized.

Regarding application of Standard 15 on the impairment of assets – see Note 2.y.

Until December 31, 2006, the elements of fixed asset items having a different useful life were not depreciated separately.

As from January 1, 2007, when Accounting Standard No. 27 "Fixed Assets" took effect, fixed assets are depreciated separately for each element of depreciable fixed asset items having cost that is significant relative to the cost of the item. The assets are depreciated over the expected useful life of the item's elements, from the date the asset is ready for its intended use, taking into account the residual value expected at the end of the useful life.

The cost of an overhaul of an aircraft engine is capitalized as an asset in the balance sheet, and is depreciated over the period of economic benefit expected from this overhaul (based on the estimate of projected engine hours). Until the Standard took effect, the costs of general overhauls were expensed when the overhaul was performed.

Residual value, depreciation method and useful life of the asset are reviewed by the Company's management at the end of every fiscal year. Changes are treated as a change in estimate, prospectively.

Assets under financing leases are depreciated over their expected useful life, on the same basis as owned assets, or over the period of the lease, whichever is shorter.

A gain or loss resulting from the sale or disposal of an asset is determined according to the difference between the receipts from sale and book value of the asset, and is charged to the statement of operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Fixed assets (cont.)

As a result of the retroactive application of the Standard's provisions, the Company retroactively separated the overhaul costs that had been included in the original cost of the planes, and depreciated them separately. Additionally, the costs of the subsequent overhauls were recorded retroactively as an asset in the balance sheet, instead of as an expense, as was done in the past.

Consequently, the Company retroactively updated the capital gains it had recorded on the sale of assets effected in the past.

See Note 2.z regarding the effect of retroactive application of the Standard on the financial statements for prior periods.

The cost of accessories and spare parts included in fixed assets has been determined by the moving weighted-average method.

Accessories and spare parts attributed to a specific fleet are depreciated over the remaining average useful life of that fleet. Accessories and replacement parts which are not attributed to a specific fleet are depreciated at a fixed annual rate.

Obsolete and slow-moving accessories and spare parts are included at their written down value, based on management's estimate.

As for annual depreciation rates – see Note 9.

j. Other assets

Rights to use security-related equipment are stated at their cost to the Company and amortized over the estimated economic life, subject to an examination for impairment. The estimated life and amortization method are examined at the end of every reporting year, with the effect of changes in estimate treated prospectively.

k. Deferred expenses for credit costs

Commencing January 1, 2006, when Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation", took effect, the loan costs are offset against the balance of the liability for such loans, and are amortized by the effective interest method.

l. Obligations for frequent flyer programs

The provision has been computed for passengers accumulating minimum points in relation to an estimate of the plans' effective cost to the Company arising from the utilization of the benefits granted under those plans. The effective cost is based on management's assessment of the anticipated relative weight of the marginal expenses likely to be incurred by the Company and of the loss of alternative revenues attributable to rejection of a paying passenger upon the utilization of those benefits.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Obligation for termination of employee-employer relationships, net

The obligation for termination of employee-employer relationships covers all obligations to employees required by law, agreement, practice and management expectations.

The monies received from the Government of Israel to cover the deficit in the severance-pay fund are included in the financial statements on a cash basis, when deposited in the severance-pay fund by the Government of Israel-see Note 15b.3.b.

n. Basis for revenue recognition and allocation of commissions to agents

Revenues from flight-ticket sales are included as deferred income within current liabilities until the earlier of the date of the service provided or two years from date of sale.

Revenues from the carriage of passengers include income for service provided by the Company in cases in which the sale of flight tickets has been made by other airlines.
Additionally, revenues from the carriage of passenger also include income derived from Code Share Agreements with other airlines. In such case, the service is rendered by other airlines while the sale is made by the Company, with the income being presented at a net amount.

Revenues from carriage of cargo are recorded as revenues in the statement of operations upon rendering the service.

Agent commissions attributed to unrecognized revenues are included in the financial statements in “other current assets-prepaid expenses” and charged to the statement of operations as selling expenses concurrent with the recognition of revenue.

o. Maintenance and engine overhaul expenses

Maintenance and engine improvement expenses that are not overhauls, as discussed in Note 2.i, are charged to the statement of operations upon actual performance of the maintenance or engine overhaul.
In cases in which the Company entered into warranty contracts, the Company records expenses as defined in the warranty agreement, and the cost of the overhaul is borne by the warrantor.

p. Security expenses for Company services

The Company's participation in the government’s expenses for providing security for the Company's services is allocated to operations as incurred, based on the Company's share of such expenses. Regarding a subsequent event – see Note 26.1.

q. Jet-fuel hedging transactions

The outcome of financial transactions to hedge jet-fuel prices designed to secure the price of fuel against changes in world prices are allocated to operating expenses in the statement of operations concurrently with the recording of the results of fuel purchase transactions.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Hedging interest and foreign exchange rates

Part of the financial instruments used by the Company to replace the variable-interest component with a fixed interest component are designed to hedge, but are not recognized for accounting purposes. These financial instruments are presented in the financial statements based on their fair value with other current assets or current liabilities, as applicable. Changes in fair value are allocated to the financing section in the statement of operations for each period.

The fair value of the derivative financial instruments referred to above is determined by market prices.

Another part of the financial instruments used by the Company to replace the variable interest component in the fixed interest component is recognized for accounting purposes as hedging transactions. The outcomes of these financial instruments is charged to financing expenses in the statement of operations, concurrently with recording the financing expenses on the loans to which the financial instruments relate.

The financial instruments used by the Company to hedge against changes in foreign-exchange rates are not recognized for accounting purposes. These financial instruments are presented in the financial statements at their fair value, determined based upon data received from the banks with which the Company has entered into agreements related to these transactions.

s. Deferred income taxes

The Company and subsidiaries allocate taxes for temporary differences between the value of assets and liabilities in the financial statements and their tax basis, and for tax losses whose realization is anticipated. The deferred income taxes are computed at the tax rates expected upon realization, as known as of the balance-sheet date (between 25%-27%).

Not taken into account when computing deferred taxes are the taxes that would apply in the event of realization of investments in investees, since the Company intends to hold and develop these investments. Also not taken into account are deferred taxes on the distribution of earnings in these companies, since the dividends are not taxable.

t. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect the amounts of the assets and liabilities included in the financial statements, disclosure of contingent assets and liabilities as of the date of the financial statements and amounts of revenues and expenses in the reporting periods. Although these estimates and assessments are made with the best judgment, actual results may differ from these estimates.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Linked balances

Balances in, or linked to, foreign currency are included in the financial statements on the basis of the representative exchange rate in effect on the balance- sheet date.

Following is data on the Consumer Price Index ("CPI") in Israel and the exchange rates of foreign currencies in relation to the U.S. dollar:

	December 31		
	2007	2006	2005
CPI - in points	191.2	184.9	185.1
Dollar rate - in NIS	3.846	4.225	4.603
Dollar rate - in EURO	0.680	0.759	0.845
Dollar rate - in POUND STERLING	0.499	0.510	0.580

Rate of change - in %:

	Year ended December 31		
	2007	2006	2005
CPI	3.4%	(0.1%)	2.4%
Dollar rate - in NIS	(9.0%)	(8.2%)	6.8%
Dollar rate - in EURO	(10.4%)	(10.2%)	15.3%
Dollar rate - in POUND STERLING	(2.2%)	(12.1%)	11.7%

v. Earnings (loss) per share

The Company computes the amounts of basic earnings per share by dividing earnings or loss attributable to ordinary shareholders of the Company (numerator), by the weighted average of the outstanding ordinary shares (denominator) during the reporting period. In its computation of diluted earnings per share, the Company adjusts earnings or loss attributable to the ordinary shareholders and the weighted average of the outstanding shares for the effects of all the potential dilutive ordinary shares.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Share-based payments

Commencing January 1, 2006, the Company applies Accounting Standard No. 24, “Share-Based Payments” (hereafter – "the standard"). Pursuant to the directives of the standard, the Company recognizes share-based payment transactions in the financial statements, including transactions with employees or other parties that are settled by means of equity instruments of the Company or in cash.

For share-based payment transactions that are settled in cash, the Company measures the goods or services acquired and the liabilities incurred according to the fair value of the liability. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date, and at the date of settlement, with any changes in fair value being recognized in earnings or loss for the period.

With respect to share-based payment transactions with employees, the Company measures the fair value of the equity instruments granted on the grant date. If the equity instruments do not vest until those employees have completed a defined period of service, the Company recognizes the service in the financial statements over the vesting period.

x. Transactions with a former controlling party

Until December 31, 2006, transactions between the Company and its former controlling party were treated according to the Securities Regulations (Financial Statement Presentation of Transactions between a Company and its Controlling Party), 1996 ("the regulations").

Commencing January 1, 2007, the Company applies Accounting Standard No. 23, "Accounting Treatment of Transactions between an Entity and its Controlling Party".

This Standard provides that the valuation basis in transactions between an entity and its controlling party is fair value. Transactions having the nature of an owner's investment or a distribution to owners belong in shareholders' equity, and they are not to be included in the operating results of the controlled entity. Differences between the consideration prescribed in transactions between and an entity and its controlling party and between the fair value of those transactions will be recorded to shareholders' equity. Current and deferred taxes related to items recorded to shareholders' equity for transactions with controlling parties will also be recorded directly to shareholders' equity.

The Government’s waiver of a Company obligation to the Government of Israel executed in the year 2003, has been allocated to a capital reserve for transactions with a former controlling party.

Moreover, amounts received from the Government of Israel to cover the deficit in the severance pay fund are allocated, upon deposit, to the capital reserve for transactions with a former controlling party.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

y. Impairment of assets

The Company applies Accounting Standard No.15, “Impairment of Assets”. Standard 15 sets forth the accounting treatment and presentation of asset impairment and establishes procedures to be implemented by a corporation in order to ensure that assets are not presented in amounts exceeding their recoverable amount. The recoverable amount of an asset is defined as the higher of the net selling price of the asset and the present value of estimated future cash flows expected to be derived from the use and realization of the asset. The standard also stipulates the rules for presentation and disclosure of impaired assets.

Company management believes that the recoverable amounts of the aircraft should be compared to their net book value on the basis of grouping the fleets and that it is incorrect to compare the recoverable value of each plane to its net book value individually.

Following the grouping conducted by the Company for its aircraft fleets, it became evident that the recoverable value for each group of aircraft exceeds its net book value at that time. Accordingly, no provision for impairment has been included in these financial statements for impairment of the value of these aircrafts.

z. Restatement

The financial statements as of December 31, 2006 and 2005 and for the two years then ended were retroactively adjusted, in accordance with the provisions of Accounting Standard No. 27, "Fixed Assets" (hereafter – "the Standard"), as in Note 2i above.

Presented below are the key changes made as a result of the Standard taking effect:

1. The cost of general engine overhauls was separated from the original cost of the aircraft and was depreciated over the period of economic benefit from that overhaul (average of 8 years).

2. The cost of subsequent overhauls are recorded as an asset in fixed assets and depreciated as aforesaid, whereas in the accounting policy practiced until the Standard took effect, the overhaul was recorded to operating expenses.

3. The capital gain recorded in the third quarter of 2006 from the sale of a cargo plane was retroactively adjusted as a result of the change in the net book value of the plane on the date of sale, as aforesaid.

4. The increase in fixed assets as of December 31, 2006 and 2005 requires the recording of a provision for deferred taxes of $7,147 thousand and $6,272 thousand, respectively.

Likewise, within the scope of the processing of fixed asset data, it was found that depreciation differences taken into account in the past in the computation of the deferred tax liability requires a change. This change increases the deferred tax liability as of December 31, 2006 and 2005 by $37,188 thousand and $44,594 thousand, respectively.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Restatement (cont.)

The effect on the financial statements – consolidated and Company - of the restatement for the aforementioned matters is as follows:

1. Consolidated balance sheets

	December 31, 2006			December 31, 2005		
	Before restatement	Effect of restatement	In these financial statements	Before restatement	Effect of restatement	In these financial statements
	(in thousand US dollars)			(in thousand US dollars)		
Fixed assets	1,148,389	28,139	1,176,528	1,163,765	24,216	1,187,981
Deferred taxes payable	(30,268)	(44,335)	(74,603)	(46,300)	(50,866)	(97,166)
Capital reserve from transactions with former controlling party	(299,894)	81,396	(218,498)	(299,119)	81,396	(217,723)
Accumulated deficit	204,620	(65,200)	139,420	160,254	(54,746)	105,508
Total shareholders' equity	(230,296)	16,196	(214,100)	(271,009)	26,650	(244,359)

2. Consolidated statements of operations

	Year ended December 31, 2006			Year ended December 31, 2005		
	Before restatement	Effect of restatement	In these financial statements	Before restatement	Effect of restatement	In these financial statements
	(in thousand US dollars)			(in thousand US dollars)		
Operating expenses	1,402,652	(8,493)	1,394,159	1,243,198	2,372	1,245,570
Other expenses (income), net	(1,806)	4,570	2,764	4,519	-	4,519
Tax expenses (savings)	134	(6,531)	(6,397)	304	12,756	13,060
Net income (loss) for year	44,366	(10,454)	33,912	(64,126)	15,128	(48,998)
Basic earnings (loss) per share in $	0.11	(0.03)	0.08	(0.16)	0.04	(0.12)
Fully-diluted earnings (loss) per share in $	0.11	(0.03)	0.08	(0.13)	0.03	(0.10)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Restatement (cont.)

3. Consolidated statements of cash flows:

	Year ended December 31, 2006			Year ended December 31, 2005		
	Before restatement	Effect of restatement	In these financial statements	Before restatement	Effect of restatement	In these financial statements
	(in thousand US dollars)			(in thousand US dollars)		
Cash flows provided by operating activities	73,436	24,700	98,136	183,619	17,900	201,519
Cash flows provided by (used for) investing activities	10,146	(24,700)	(14,554)	(95,655)	(17,900)	(113,555)

4. Balance sheets - Company:

	December 31, 2006			December 31, 2005		
	Before restatement	Effect of restatement	In these financial statements	Before restatement	Effect of restatement	In these financial statements
	(in thousand US dollars)			(in thousand US dollars)		
Fixed assets	1,146,216	28,139	1,174,355	1,161,500	24,216	1,185,716
Deferred taxes payable	(30,171)	(44,335)	(74,506)	(46,173)	(50,866)	(97,039)
Capital reserve for transactions with former controlling party	(299,894)	81,396	(218,498)	(299,119)	81,396	(217,723)
Accumulated deficit	204,620	(65,200)	139,420	160,254	(54,746)	105,508
Total shareholders' equity	(230,296)	16,196	(214,100)	(271,009)	26,650	(244,359)

5. Statement of operations – Company:

	Year ended December 31, 2006			Year ended December 31, 2005		
	Before restatement	Effect of restatement	In these financial statements	Before restatement	Effect of restatement	In these financial statements
	(in thousand US dollars)			(in thousand US dollars)		
Operating expenses	1,397,494	(8,493)	1,389,001	1,238,864	2,372	1,241,236
Other expenses (income), net	(1,824)	4,570	2,746	4,628	-	4,628
Tax expenses (savings)	-	(6,531)	(6,531)	-	12,756	12,756
Net income (loss) for year	(44,366)	(10,454)	(33,912)	64,126	15,128	48,998

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Restatement (cont.)

6. Statement of cash flows – Company:

	Year ended December 31, 2006			Year ended December 31, 2005		
	Before restatement	Effect of restatement	In these financial statements	Before restatement	Effect of restatement	In these financial statements
	(in thousand US dollars)			(in thousand US dollars)		
Cash flows provided by operating activities	73,349	24,700	98,049	182,181	17,900	200,081
Cash flows provided by (used for) investing activities	10,797	(24,700)	(13,903)	(94,827)	(17,900)	(112,727)

aa. Effect of new Accounting Standards in period before application:

Accounting Standard No. 29 – Adoption of International Financial Reporting Standards (IFRS)

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" ("the Standard" or "Standard 29").

The Standard provides that the financial statements of entities that are subject to the Israeli Securities Law and obligated to report according to the regulations of this law, except for foreign corporations, as defined in the Securities Law, will be prepared as from reporting periods commencing January 1, 2008 in accordance with the International Financial Reporting Standards (IFRS) and their interpretations, which are published by the International Accounting Standards Board (IASB).

An entity that will apply the IFRS Standards as from January 1, 2008, and will choose to report comparative figures for the year 2007 alone, in accordance with the IFRS Standards, will be required to prepare an opening balance sheet as at January 1, 2007 in accordance with the IFRS Standards ("opening balance sheet").

The transition to reporting in accordance with IFRS Standards will be carried out in accordance with IFRS Standard 1, initial adoption of IFRS Standards. IFRS Standard 1 provides rules on how an entity will carry out the transition from the previous financial reporting on the basis of previous local accounting principles to financial reporting based on the IFRS. IFRS Standard 1 supersedes all transitional provisions provided in the other IFRS Standards (including transitional provisions provided in previous local accounting standards) and provides that all the international financial reporting standards are to be adopted retroactively in the opening balance sheet. However, IFRS 1 grants accommodations for certain matters by not imposing the obligation to apply them retroactively. Additionally, IFRS 1 provides several exceptions regarding the retroactive application of certain aspects of other IFRS Standards.

Standard 29 enables entities to choose to prepare their financial statements in accordance with IFRS Standards on a date earlier than January 1, 2008, commencing the financial statements issued after July 31, 2006.

Company management elected to adopt the IFRS Standards as from January 1, 2008.

Regarding the adjustments that will be made at the time of the change to reporting in accordance with IFRS Standards and the exceptions elected by the Company under the provisions of IFRS No. 1, see Note 25.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - SHORT-TERM INVESTMENTS

a. **Composition**

	Consolidated		Company	
	December 31,		December 31,	
	2007	2006	2007	2006
	(in thousand US dollars)			
Short-term bank deposits – in dollars	172,000	4,000	172,000	4,000
Short-term bank deposits – in NIS	8,633	682	7,435	-
	180,633	4,682	179,435	4,000

b. The short-term bank deposits as of December 31, 2007 bear annual interest at an average rate of 5.13%.

c. The short-term deposits as of December 31, 2007 include a shekel deposit equivalent in value to $7,435 thousand (including interest), originating in the proceeds from the exercise of options (Series 1) received by the Company, which exceed the "deficit" in the severance pay fund of eligible employees – as in Note 15.b.3.b.
The Company is examining for limitations on the ability to use the balance of these proceeds, pursuant to its agreement with the State and the employees' representatives. Subsequent to the balance sheet date, the Company approached the Controller-General in the Ministry of Finance regarding this matter.

NOTE 4 - TRADE ACCOUNTS RECEIVABLE

a. **Composition**

	Consolidated		Company	
	December 31,		December 31,	
	2007	2006	2007	2006
	(in thousand US dollars)			
Outstanding accounts	125,903	119,231	122,560	115,617
Less: allowance for doubtful accounts	(1,535)	(2,086)	(1,533)	(2,016)
	124,368	117,145	121,027	113,601
Airlines (see b. below)	19,249	15,399	19,249	15,399
	143,617	132,544	140,276	129,000

b. The accounting settlement among the airlines is mostly arranged through IATA’s clearing system.

NOTE 5 - RECEIVABLES AND OTHER CURRENT ASSETS

Composition

	Consolidated		Company	
	December 31,		December 31,	
	2007	2006	2007	2006
	(in thousand US dollars)			
Prepaid expenses	32,022	24,960	31,781	24,684
VAT authorities	3,697	4,138	3,517	3,982
Fair value of hedging instruments	4,603	2,904	4,603	2,904
Loans and advances to employees	494	289	259	282
Subsidiaries	-	-	1,658	2,621
Interest receivable	2,380	473	2,380	473
Other receivables	8,757	14,578	9,217	14,448
	51,953	47,342	53,415	49,394

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - INVENTORY

Composition	Consolidated December 31, 2007	Consolidated December 31, 2006	Company December 31, 2007	Company December 31, 2006
	(in thousand US dollars)			
Jet fuel for consumption	8,027	10,484	8,027	10,484
Other (mainly chemicals, consumable equipment, duty-free products and food products)	7,954	6,706	7,352	5,980
	15,981	17,190	15,379	16,464

NOTE 7 - LONG-TERM BANK DEPOSITS AND INVESTMENT IN ANOTHER COMPANY

a. **Composition:**

	Interest rates on December 31, 2007	Consolidated and Company December 31, 2007	Consolidated and Company December 31, 2006
	%	(in thousand US dollars)	
Bank deposits in unlinked NIS (see b below)	2.43-2.79	2,207	1,836
Investment in another company (see c below)		1,715	1,829
		3,922	3,665

b. The unlinked NIS bank deposits as of December 31, 2007 include $2,027 thousand used as security for the repayment of bank loans received by Company employees (as of December 31, 2006 -$ 1,829 thousand). The deposits have no predetermined redemption date.

c. Investment in another company of $1,715 thousand in Societe Internationale de Telecommunications – Aeronautiques ("SITA") - a non-profit cooperative society of airlines and related entities, whose objective is mainly to provide international telecommunication services to airlines and others.

As of December 31, 2007, the Company held 36 shares of €5 par value each, constituting 0.5% of SITA's share capital.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - INVESTEES

a. Composition:

	December 31, 2007				December 31, 2006			
	Shares, at cost	Loans and inter-company balances	Company's equity in retained earnings (deficits)	Total	Shares, at cost	Loans and inter-company balances	Company's equity in retained earnings (deficits)	Total
	(In thousand US dollars)							
1. Consolidated:								
Affiliates (1):								
Sabre Israel (2)	-	1,228	982	2,210	-	1,228	771	1,999
Air Tour	13	-	-	13	13	-	-	13
ACI and Kavei Chufsha (3)	44	-	1	45	44	-	224	268
	57	1,228	983	2,268	57	1,228	995	2,280
2. Company:								
Subsidiaries:								
Superstar (4)	349	411	(115)	645	349	-	(150)	199
Tamam	1	-	4,571	4,572	1	-	4,862	4,863
Borenstein	1	-	3,955	3,956	1	-	3,929	3,930
Sun D'Or	3	-	-	3	3	-	-	3
	354	411	8,411	9,176	354	-	8,641	8,995
Affiliates (1):								
Sabre Israel (2)	-	1,228	982	2,210	-	1,228	771	1,999
Air Tour	13	-	-	13	13	-	-	13
ACI and Kavei Chufsha (3)	44	-	1	45	44	-	224	268
	57	1,228	983	2,268	57	1,228	995	2,280
	411	1,639	9,394	11,444	411	1,228	9,636	11,275

1. Includes Airtour and ACI which are presented at cost – see note 8b.5 and 8b.6.
2. The loan to Sabre is denominated in US dollars and bears interest of Libor + 1.5%.
3. In 2007, equity in retained earnings was net of a dividend received from Chufsha of $345 thousand.
4. The loan to Superstar, which was given in the current year, is in pounds sterling and is non-interest bearing. The loan does not have a pre-determined maturity date.

NOTE 8 - INVESTEES (Cont.)

b. Additional information pertaining to the investments and activity in main investees:

1. Tamam Aircraft Food Industries (BGA) Ltd. ("Tamam")

Tamam is primarily engaged in the production and supply of prepared meals for airlines, with most of its sales made to the Company and a small fraction to other airlines and customers. Tamam provides the Company with catering and food services on its aircraft at prices specified by agreements, the last of which was extended until December 31, 2007. As of the approval date of these financial statements, the Company had not yet signed a new agreement with Tamam.

Tamam's plant is located at BGA and it has an agreement with the Airports Authority ("AA"), according to which it may use the area owned by AA in exchange for agreed-upon authorization fees based on Tamam's turnover.

Following the opening of BGA 2000, Tamam estimates that it will have to relocate its plant from its present location and move to a new location in 2010.

As for transactions carried out by the Company with Tamam – see Note 23.

2. Borenstein Caterers Inc. (USA) – ("Borenstein")

Borenstein, a wholly owned subsidiary, is a USA corporation operating out of New York's JFK, and is mostly engaged in the production and delivery of kosher meals for airlines and other institutions, with the Company being its major customer.

As for transactions carried out between the Company and Borenstein – see Note 23.

3. Superstar Holidays Ltd. (England) – ("Superstar")

Superstar is registered in England and Wales and is wholly-owned by the Company. It is engaged in the marketing of wholesale tourism packages to travel agents and individual travelers, as well as airline tickets.

Superstar has a branch in Israel, as well as branches in several cities abroad.

As for transactions carried out between the Company and Superstar – see Note 23.

NOTE 8 - INVESTEES (Cont.)

b. Additional information on investments and activity in main investees: (Cont.)

4. Sun D'Or International Airlines Ltd. ("Sun D'Or")

Sun D'Or operates charter flights within the framework of a commercial policy coordinated with the Company, by means of aircraft leased from the Company, or through the Company. In addition, Sun D’Or sells seat packages on EL AL flights to agents in exchange for a commission.

Sun D'Or has a commercial operation certificate, valid for an indefinite period, to transport passengers and cargo on charter flights to and from Israel. The license provides, inter alia, that the operation of aircraft requires Civil Aviation Authority (CAA) approval that flights will be carried out by planes owned by the Company or Arkia Israel Airlines Ltd. or aircraft leased by the Company, with BGA being Sun D’Or’s home-base.

In addition, Sun D’Or operates charter flights under an independent code (“7L”). It has an air operation certificate, which is based on two aircraft leased from the Company, subject to requirements set by the CAA which pertain mainly to the receipt of maintenance services from an authorized inspection institute and to the employment of substitute workers in certain functions.

According to the method used by the two companies to settle their accounts, Sun D’Or ends each year at a breakeven point.

As for an understanding reached between the Company and the Commissioner for Restrictive Trade Practices – see Note 1.b.4.

As for transactions between the Company and Sun D’Or – see Note 23.

5. Tour Air (Israel) Ltd. ("Air Tour ")

The shares of Air Tour are held by Israeli travel agents (50%) and the Company (50%). Air Tour acts as a reduced-price ticket provider for individuals, almost exclusively for the Company, and also markets the Company’s flights and special promotions of the Company to all of its flight destinations.

The shares held by the Company grant it the right to participate and vote in Air Tour’s General Meetings with 50% voting rights and to appoint half of its directors, but do not grant it the right to receive dividends or profits, other than profits derived from investing in Air Tour’s share capital.

The investment in Air Tour is stated at cost.

As for transactions between the Company and Air Tour – see Note 23.

NOTE 8 - INVESTEES (Cont.)

b. Additional information on investments and activity in main investees: (Cont.)

6. Air Consolidators Israel Ltd. ("ACI")

ACI is primarily engaged in the consolidation of air cargo at BGA to facilitate the reduction in price of air shipments. Air transport is carried out by the Company, at special prices, and by foreign companies.

The shares held by the Company entitle it to participate and vote in the General Meetings of ACI to the extent of 50% and to appoint half of its board members, without the right to receive earnings by way of a dividend distribution or any other benefit, other than earnings and dividends derived from capital gains.

The investment is presented at cost.

As for transactions between the Company and ACI – see Note 23.

7. Sabre Israel Travel Technologies Ltd. ("Sabre Israel")

Sabre Israel was established within the framework of an agreement signed in 2001 to set up a joint venture between the Company and Sabre Inc. The Company's share in Sabre Israel is 49% while the share of Sabre Inc. is 51%. Sabre Israel commenced its activities in December 2001 and it provides the travel agents segment in Israel with flight-order services for the airlines of the world, as well as orders for a wide range of additional tourism services worldwide. Those services are provided to travel agents, who acquire a license for using an integrated system that includes the use of the "Carmel" system owned by the Company, as well as the use of Sabre system and technology.

In addition, Sabre Israel provides support and maintenance services to travel agents in Israel.

According to the agreement, the Company and Sabre Inc. pay marketing fees to Sabre Israel, as well as additional marketing fees, which complement Sabre Israel's pre-tax operating income to cost plus 7%.

The investment is presented on the equity basis.

As for mutual transactions between the Company and Sabre Israel– see Note 23.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - FIXED ASSETS

a. Composition:

	Buildings and installations (1)	Aircraft and flight equipment (2)	Payments on account of aircraft & engines(3)	Machinery and ground equipment	Computers and office furniture	Vehicles and hanger equipment	Total
	Consolidated						
	(in thousand US dollars)						
Cost							
Balance - January 1, 2007	96,835	* 2,127,003	82,719	54,686	115,617	8,539	* 2,485,399
Reclassification	-	82,108	(82,108)	-	-	-	-
Additions	3,656	235,829	3,052	1,821	4,026	175	248,558
Disposals	(30)	(25,099)	-	(714)	-	(563)	(26,406)
Balance - December 31, 2007	100,461	2,419,841	3,663	55,793	119,643	8,151	2,707,551
Accumulated depreciation							
Balance - January 1, 2007	66,955	* 1,082,364	-	48,983	103,635	6,934	* 1,308,871
Annual depreciation	2,569	108,272	-	2,340	6,326	294	119,801
Disposals	(6)	(6,325)	-	(821)	-	(390)	(7,542)
Balance - December 31, 2007	69,518	1,184,311	-	50,502	109,961	6,838	1,421,130
Net book value:							
December 31, 2007	30,944	1,235,530	3,663	5,291	9,680	1,313	1,286,421
December 31, 2006	29,880	1,044,639	82,719	5,703	11,982	1,605	1,176,528
Annual depreciation rate	4%-10%	See b2	-	5%-20% (mainly 10%)	5%-33% (mainly 33%)	5%-15% (mainly 15%)	

* Restated – see Note 2z.
(1) See f. below.
(2) See b. below.
(3) See c. below.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - FIXED ASSETS (Cont.)

a. Composition: (Cont.)

	Company						
	Buildings and installations (1)	Aircraft and flight equipment (2)	Payments on account of aircraft & engines(3)	Machinery and ground equipment	Computers and office furniture	Vehicles and hanger equipment	Total
	(in thousand US dollars)						
Cost							
Balance - January 1, 2007	92,951	* 2,127,003	82,719	48,218	113,618	7,200	*2,471,709
Reclassification	-	82,108	(82,108)	-	-	-	-
Additions	3,600	235,829	3,052	1,555	3,930	175	248,141
Disposals	(30)	(25,099)	-	(714)	-	(538)	(26,381)
Balance - December 31, 2007	96,521	2,419,841	3,663	49,059	117,548	6,837	2,693,469
Accumulated depreciation							
Balance - January 1, 2007	63,676	* 1,082,364	-	43,823	101,731	5,760	*1,297,354
Annual depreciation	2,456	108,272	-	1,998	6,261	277	119,264
Disposals	(6)	(6,325)	-	(821)	-	(368)	(7,520)
Balance - December 31, 2007	66,126	1,184,311	-	45,000	107,992	5,669	1,409,098
Net book value:							
December 31, 2007	30,395	1,235,530	3,663	4,059	9,556	1,168	1,284,371
December 31, 2006	29,275	1,044,639	82,719	4,395	11,887	1,440	1,174,355
Annual depreciation rate	4%-10%	See b.2	-	5%-20% (mainly 10%)	5%-33% (mainly 33%)	5%-15% (mainly 15%)	

* Restated – see Note 2z.
(1) See f. below.
(2) See b. below.
(3) See c. below.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - FIXED ASSETS (Cont.)

b. Boeing aircraft and flight equipment

1. Composition

		Consolidated and Company			
		December 31,			
		2007			2006*
		Cost	Accumulated depreciation	Net book value	Net book value
		(in thousand US dollars)			
Quantity	**Type of aircraft As of 31.12.07**				
	747-400				
4	458B (passenger)	424,047	208,845	215,202	236,952
	Spare engines	6,600	3,914	2,686	3,026
	Engine overhauls	77,280	38,640	38,640	38,640
		507,927	251,399	256,528	278,618
	747-200				
4	245F/258C (cargo)	121,030	113,798	7,232	12,776
	Spare engines	17,481	17,481	-	-
	Engine overhauls	83,366	50,795	32,571	36,535
		221,877	182,074	39,803	49,311
	757				
5	258B (passenger)	175,339	121,741	53,598	56,840
	Spare engines	3,347	2,757	590	914
	Engine overhauls	54,303	35,722	18,581	12,576
		232,989	160,220	72,769	70,330
	737				
5	700/800 (passenger)	141,573	46,302	96,271	99,054
	Spare engines	6,390	1,954	4,436	3,900
	Engine overhauls	34,705	23,673	11,032	11,086
		182,668	71,929	110,739	114,040
	767				
4	200 (passenger)	143,182	135,705	7,477	13,833
2	200ER (passenger)	81,125	48,358	32,767	38,781
	Spare engines	1,649	979	670	757
	Engine overhauls	77,921	46,499	31,422	33,323
		303,877	231,541	72,336	86,694
	777-258 ER **				
6	Passenger	663,496	108,145	555,351	329,365
	Spare engines	21,157	4,164	16,993	18,173
	Engine overhauls	67,030	33,515	33,515	23,940
30		751,683	145,824	605,859	371,478
		2,201,021	1,042,987	1,158,034	970,471
	Accessories and spare parts - general	218,820	141,324	77,496	74,168
		2,419,841	1,184,311	1,235,530	1,044,639
	Including capitalized financing costs	5,859	2,260	3,599	3,833

* Restated – see Note 2z.

** Includes three aircraft in financing leases – see Note 9e.

NOTE 9 - FIXED ASSETS (Cont.)

b. Boeing aircraft and flight equipment (Cont.)

2. Depreciation rates

The annual depreciation rate of each aircraft is decided considering its residual value, as it appears in the prevailing aircraft pricelist, which estimate the value of an aircraft for the year that management assesses the use to the Company of that aircraft will end.

On December 31, 2007, the balance of years remaining for the Company's aircraft fleet is between one and twenty years.

The annual depreciation rate of the spare engines was determined according to the average number of years remaining for that fleet of aircraft to which the engines are allocated.

Engine overhauls are depreciated according to potential engine hours that the overhaul added to that engine, and according to an estimate of the projected engine hours for that aircraft fleet in the coming years.

As of December 31, 2007, the balance of years remaining for general engine overhauls ranges between two months and 12 years.

Accessories and spare parts allocated to a specific aircraft fleet are depreciated over the average remaining life of that fleet. Accessories and spare parts that are not allocated to a specific fleet are depreciated at the rate of 10% annually.

c. Payments on account of aircraft and flight equipment - composition

	Consolidated and Company	
	December 31	
	2007	2006
	(in thousand US dollars)	
Advance for the purchase of two 777-200 aircraft	-	82,108
Advance for the purchase of four 777-200 aircraft	980	-
Replacement of seats in 777 fleet	687	112
Advances for replacement of computer systems	624	-
Other	1,372	499
	3,663	82,719

d. Acquisition of aircraft from the State and settlement of the Company's liabilities for use of aircraft -

1. Overview-

On May 5, 2003, prior to privatization, the Company signed an agreement with the Government of Israel to arrange the repayment of Company liabilities to the Government of Israel for the Company's use, since 1983, of four Boeing 767 aircraft (two of the ER model) and two 737-200 aircraft (sold in 1999) as well as related equipment. Within the framework of this agreement, which was approved by the Knesset's Finance Committee on May 5, 2003, the acquisition of four 767 aircraft from the State and an allotment of share capital to the Government of Israel were arranged. The effect of this agreement on the Company's financial statements was reflected in the financial statements for the year ended December 31, 2003.

NOTE 9 - FIXED ASSETS (Cont.)

d. Acquisition of aircraft from the State and settlement of the Company's liabilities in respect of aircraft use (Cont.)

2. Agreement highlights -

The Company's liabilities to the Government of Israel as of the end of 2002 amounted to approximately $274.5 million, of which a total of $226.3 million was waived by the government while the Company waived an identical amount of carryforward business tax losses.

The market value of the four planes on May 5, 2003 amounted to approximately $ 41 million.

The net book value of the four aircraft which had been owned by the State as of May 5, 2003, had the Government of Israel included them in financial statements prepared in conformity with generally accepted accounting principles, would have been $ 41.1 million. The planes were recorded in the Company's accounts at this net book value.

In exchange for the purchase of the four planes from the government and the amounts previously received for the sale of two 737 aircraft on account of share capital (including the settlement of payments made in previous years on account of the aircraft) and to settle the remaining debt owed to the Government of Israel, the Company allotted ordinary shares amounting to $ 84 million to the Government of Israel in May, 2003.

3. In accordance with the Securities Regulations (Financial Statement Presentation of Transactions between a Company and a Controlling Party), 1996, the difference between the market value and the net book value as above, was recorded to a capital reserve from transactions with a former controlling party. In addition the waiver by the Government of Israel of usage fees for these planes, net of a reduction in the Company's deferred taxes receivable, due to the Company's waiver of business losses, was recorded to a capital reserve from transactions with a former controlling party in the net amount of $142.2 million..

e. Aircraft under financing leases:

1. In June 2002, the Company received and operated a fourth 777-200 aircraft (hereafter- "the fourth aircraft).

Citi Bank financed most of the cost of the fourth aircraft by means of a loan, and, for that purpose, a new foreign company, Zipporah Leasing Ltd. (hereafter: "the foreign company"), was established in the Cayman Islands. The ExIm Bank provided Citi Bank with a guarantee while Citi Bank, the foreign company, ExIm Bank and the Company appointed Wells Fargo as trustee of the collateral (hereafter: "trustee of the collateral").

The shares of the foreign company were pledged in favor of the trustee of the collateral, which also appoints the directors of the foreign company.

The fourth aircraft, which is leased by the foreign company from Boeing, is subleased to the Company for 12 years in exchange for leasing fees identical in amount to the repayment of the principal and interest amounts payable to Citi Bank.

The Company has an option to acquire this plane at the end of the loan-repayment period for $1.00.

The fourth aircraft, which is included in the financial statements within the Company's fixed assets, is depreciated over the expected period of economic benefit, against an entry to long-term loans for the loan received from Citi Bank to finance most of the plane's cost.

As for credit terms – see Note 14.d.5.

NOTE 9 - FIXED ASSETS (Cont.)

e. Aircraft under financing leases:

2. In July and August 2007, the Company received and operated two new 777-200 aircraft (fifth and sixth of this model) from Boeing.

   In July 2007, a financing agreement was signed with a consortium of several foreign banks to finance the purchase of the planes.

   For this purpose, a new foreign company, Yochevet Leasing LLC (hereafter: "the foreign company"), was established in the Cayman Islands. The ExIm Bank provided a bank guarantee to the lending banks. The lending banks, the foreign company, ExIm Bank and the Company appointed Wells Fargo as trustee of the collateral (hereafter: "trustee of the collateral").

   The shares of the foreign company were pledged in favor of the trustee of the collateral, and the planes were pledged to the ExIm Bank. Additionally, the trustee of the collateral appoints the board of directors in the foreign company.

   Both aircraft, which are leased by the foreign company from Boeing, are subleased to the Company for 12 years in exchange for leasing fees identical in amount to the repayment of the principal and interest amounts payable to the lending banks.

   The Company has an option to acquire this plane at the end of the loan-repayment period for $1.00.

   The aircraft, which are included in the financial statements within the Company's fixed assets, are depreciated over the expected period of economic benefit, against an entry to long-term loans for the loan received from Citi Bank to finance most of the plane's cost.

   As for credit terms – see Note 14.d.9.

f. Buildings and installations

	December 31,			
	2007			2006
	Cost	Accumulated depreciation	Net book value	Net book value
	(in thousand US dollars)			
Consolidated				
Buildings, hangars, warehouses, workshops and offices at BGA	64,764	41,366	23,398	22,485
Leasehold improvements of rented offices	21,318	14,699	6,619	6,427
Freehold offices	2,855	1,931	924	962
Passenger and cargo terminals	11,524	11,521	3	6
	100,461	69,517	30,944	29,880
Company				
Buildings, hangars, warehouses, workshops and offices at BGA	64,764	41,366	23,398	22,467
Leasehold improvements in rented offices	17,378	11,308	6,070	5,840
Freehold offices	2,855	1,931	924	962
Passenger and cargo terminals	11,524	11,521	3	6
	96,521	66,126	30,395	29,275

As for the contract with the Airports Authority – see Note 17.d. 5.

NOTE 9 - FIXED ASSETS (Cont.)

g. Acquisition of additional equipment under financing lease

During 2006, the Company acquired computer and other equipment under a financing lease at an overall cost of $ 1,014 thousand. Additionally, in the current year, the Company upgraded its computer system under the terms of a financing lease, at a cost of $98 thousand. These assets were recorded in the Company's accounts when received against a long-term liability (see Note 16).

h. Liens – see Note 18.

NOTE 10 - OTHER ASSETS

a. Composition – consolidated and Company

	Rights to use security equipment
	(in thousand US dollars)
Cost -	
Balance – January 1, 2007	3,968
Current additions	644
Balance – December 31, 2007	4,612
Accumulated amortization -	
Balance – January 1, 2007	513
Amortization for the year	380
Balance – December 31, 2007	893
Net book value -	
December 31, 2007	3,719
December 31, 2006	3,455
Annual amortization rate	10%-33%

In accordance with Standard 22, loan costs are presented as an offset to the loan balance – see Note 14.b.

b. Rights to use security equipment

As explained in Note 21c, the Company bears 50% of the security costs of the Government of Israel pertaining to safeguarding the Company's passengers and aircraft from acts of terror. Accordingly, the Company recorded the payments made for its share in financing the protective systems and security inspection equipment in other assets. The Company has an arrangement with the Ministry of Defense, according to which this equipment will be exclusively used by the Company over its anticipated useful economic life. Part of the security equipment had not yet been put into operation as of December 31, 2007.

NOTE 10 - OTHER ASSETS

c. Traffic rights

The Company operates in a regulatory environment, under government supervision, in addition to its being a "mixed" company, according to licenses and permits held by the Company by law.

These characteristics restrict the Company which operates in competitive international markets.

Until the mid 90's the Company had been the sole air carrier in the area of scheduled flights ("designated carrier") of passengers and cargo to and from Israel, except for one regional destination.

This exclusive status was changed following the granting of licenses to additional Israeli carriers as "designated carriers" to several destinations, partially replacing EL AL as the designated carrier of the State of Israel, granting a full operating license to KAL as a cargo carrier, and licenses for international charter flights granted to additional Israeli carriers.

Prior to the privatization, on May 19, 2003, the Ministerial Committee for Social and Economic Affairs resolved as follows:

"The Government of Israel assigns prime importance to EL AL's continued activities as designated carrier of the State of Israel in light of its imposed as well as voluntarily assumed obligations. Accordingly, the Government of Israel ratified the Minister of Transport's policy, according to which:

a. EL AL will continue to serve as a designated carrier on all routes for which it served as a designated carrier prior to the publication of the prospectus, subject to the following conditions:

    1. EL AL fulfils, at all times, its imposed as well as voluntarily assumed obligations towards the State of Israel.

    2. The Minister of Transport will consider the cancellation of EL AL's status as a designated carrier on a given route if the number of passengers flying with EL Al is 20% or lower than the number of passengers flying on that route on scheduled flights, or if the number of EL AL's scheduled flights is 20% or less than the scheduled flights operated by the designated carrier of the country of destination during the period of a calendar year.

b. Within the framework of his aviation-policy considerations, and under his legal authority, the Minister of Transport will determine whether to grant rights to an additional carrier on scheduled routes if the number of passengers flying on EL AL's scheduled flights is lower than 30% of the total number of passengers using scheduled flights on that route during a period of a calendar year.

c. Without derogating from the authority of the Minister of Transport, this policy will be reconsidered if, and when, the volume of exiting and arriving airline passengers to Israel exceeds 10.7 million per annum.

d. This decision supersedes Government Resolutions No's.160, 649 and 2313 of August 22, 1999, September 2, 2001 and July 3, 2002, respectively.

e. This resolution will go into effect upon the registration of the Company's shares on the Tel Aviv Stock Exchange."

NOTE 10 - OTHER ASSETS (Cont.)

c. Traffic rights (cont.)

On January 16, 2006, the Minister of Tourism announced that he had decided to accede to the request of Israir Aviation and Tourism Ltd (hereafter: "Israir") and to appoint it as an additional designated carrier on behalf of the State of Israel on the Tel Aviv-New York route, and accordingly, to expand Israir's commercial operating certificate. The selection was given for the operation of scheduled flights for a period of 24 months, and it was stated in the resolution that "during this period, the implications of the addition of a designated carrier would be examined, as well as additional relevant considerations regarding this route."

On January 29, 2006, the Company filed a petition to the High Court of Justice in which it requested the court to order that the decision of the Minister of Tourism is without any legal basis, therefore it is annulled or should be revoked.

On February 23, 2006, the High Court of Justice rejected the Company's petition.

Regarding the decision of the Government of Israel, which was reached subsequent to the balance sheet date, which changes the decision from May 19, 2003, see Note 26.1.

NOTE 11 - SHORT-TERM BORROWINGS AND CURRENT MATURITIES

a. Composition:

	Consolidated and company	
	As of December 31	
	2007	2006
	(in thousand US dollars)	
Current maturities of long-term loans from financial institutions	62,313	98,505
Current maturities of other loans (see Note 16)	384	2,308
Bank overdrafts	3,619	4,287
	66,316	105,100

b. As for liens and collateral – see Note 18.

NOTE 12 - TRADE ACCOUNTS PAYABLE

	Consolidated		Company	
	December 31,		December 31,	
	2007	2006	2007	2006
	(in thousand US dollars)			
a. Composition:				
Open accounts	154,494	132,658	149,033	128,485
Airlines (see b)	12,926	12,332	12,926	12,332
Subsidiaries	-	-	5,519	4,624
	167,420	144,990	167,478	145,441

b. Most of the liabilities to other airlines are secured – see Note 4b.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – PAYABLES AND OTHER CURRENT LIABILITIES

a. Composition:

	Consolidated		Company	
	December 31,		December 31,	
	2007	2006	2007	2006
	(in thousand US dollars)			
Deferred income (mainly from sale of flight tickets)	188,751	142,345	187,407	141,853
Employees and wage-related liabilities	98,301	80,061	97,219	79,096
Accrued vacation	40,166	36,231	39,498	35,480
Accrued expenses	25,158	18,604	23,963	17,381
Accrued interest on long-term loans	9,491	9,311	9,491	9,311
Accrual for frequent-flier programs	23,102	19,863	23,102	19,863
Current maturities of a consensual retirement plan (see note 15.b.12)	1,821	837	1,821	837
Accrual for productivity incentives (see b)	11,400	11,400	11,400	11,400
Investees	-	-	698	5
Other creditors	9,652	14,039	9,909	13,756
	407,842	332,691	404,508	328,982

b. Productivity incentives:

Under the terms of the collective labor agreement, the Company pays productivity incentives to its ground crew for efficiency measures and reducing manpower inputs (measured by hours of pay) per unit of output (hereafter – productivity), according to the "improshare method" ("improve efficiency and share").

The "improshare method" is based on an equal division between the parties (the Company and employees) of the savings that the Company will achieve by efficiency measures and reducing the manpower inputs per unit of output.

Productivity incentives are paid monthly, and they are limited to a ceiling of 20% of salary. Surplus productivity (if any) is saved in a "bank" for future use. Based on the indices taken into account in determining the "overall productivity rate" and based on management's estimate, the financial statements as of December 31, 2007 include an accrual of $11,400 thousand (as of 31.12.06: $11,400 thousand).

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - LONG-TERM LOANS FROM FINANCIAL INSTITUTIONS

a. Composition:

	Interest rates - December 31, 2007	Consolidated and Company December 31, 2007	Consolidated and Company December 31, 2006
	%	(in thousand US dollars)	
Dollar bank loans - bearing interest of Libor plus a margin	4.66-5.55	785,515	667,362
Less: current maturities		(62,313)	(98,505)
		723,202	568,857
Less: balance of loan arrangement costs (see b.)		(9,409)	(2,753)
		713,793	566,104

b. Loan arrangement costs:

	In thousand US dollars
Cost	
As of January 1, 2007	10,603
Current additions (see Note 14.d.9)	7,570
As of December 31, 2007	18,173
Accumulated amortization	
As of January 1, 2007	7,850
Amortization for the year	914
As of December 31, 2007	8,764
Net book value:	
As of December 31, 2007	9,409
As of December 31, 2006	2,753

c. Repayment schedule:

	December 31, 2007 (in thousand US dollars)
First year	62,313
Second year	64,396
Third year	64,625
Fourth year	132,685
Fifth year and thereafter	461,496
	785,515
Less: current maturities	(62,313)
	723,202

NOTE 14 - LONG-TERM LOANS FROM FINANCIAL INSTITUTIONS (Cont.)

d. Additional information:

1. For financing three 777-200 aircraft (marked ECA, ECB and ECC), the Company signed a contract with Bank Hapoalim Ltd. on July 27, 2001 to receive a loan totaling approximately $ 300 million over a 12-year period, bearing a variable interest rate of Libor plus a margin.

2. In order to finance a fourth 747-400 aircraft (ELD), the Company received a loan of $ 150 million on May 20, 1999 from BLL for a period of 12 years, with a variable rate of interest of Libor plus a margin, repayable in 24 semi-annual installments. During 2004 the bank agreed to split the loan balance into two separate loans, each with a designated annual repayment date.

   The loan agreement stipulated that a sale of more than 25% of the Company’s ownership rights to a single purchaser is subject to the bank’s consent, lack of which would constitute a cause for immediate loan repayment.

   As for the Company's approach to BLL following the transfer of control of the Company in December 2004, see note 14.g.2.b.

3. The Company received a loan of $ 70 million on April 15, 1999 from Israel Discount Bank Ltd. in order to finance the purchase of two second-hand 767-200 aircraft (EAE and EAF), for a period of 12 years, repayable in 24 semi-annual installments at variable interest of Libor plus a margin.

4. For the financing of five 737 aircraft (EKA, EKB, EKC, EKD, EKE), the Company received a loan of $ 190 million from Bank Hapoalim Ltd. on January 13, 2000 for a period of 12 years, repayable in 24 semi-annual installments with variable interest of Libor plus a margin. During 2004, the bank agreed to split the loan balance into two separate loans, each with a designated annual repayment date.

5. The Company received a loan of approximately $ 102 million in June 2002 from Citi Bank for financing the acquisition of a fourth 777-200 aircraft (ECD) (by means of the subleasing referred to in Note 9.e.1 above), for a period of 12 years, with variable interest of Libor plus a margin.

6. As financing for a first spare engine for the 777-200 aircraft fleet, the Company received a loan of $ 12 million from Bank Leumi Leasing Ltd. on December 14, 2000 for a period of 10 years, repayable in quarterly installments with variable interest of Libor plus a margin.

7. For the financing of most of the acquisition cost of another spare engine for the 777-200 fleet, the Company obtained a loan of approximately $ 14 million on December 29, 2005 from BNP Paribas Bank. This 12-year loan will be repaid in semi-annual installments, at a Libor variable interest rate plus a margin.

   The Bank for the Encouragement of Industry in England (ECGD) provided the Company with a loan repayment guarantee for which the Company paid a one-time premium to ECGD.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - LONG-TERM LOANS FROM FINANCIAL INSTITUTIONS (Cont.)

d. Additional information (cont.):

8. In October 2006, the Company signed an agreement with a foreign bank for the receipt of financing in the amount of approximately $ 80 million, against a lien on two 747- 400 ELA and ELB aircraft (with an option for an additional $10 million for each aircraft in order to finance the conversion for cargo- should it be decided to convert them for cargo). The financing bears variable interest at the rate of Libor plus a margin and was given for a period of 10 years from the first withdrawal, with semi-annual repayments of principal plus interest. The Company withdrew approximately 40 million dollars of this facility in November 2006, to make a balloon payment on the loan from BLL that matured. The Company has the right to draw another 40 million dollars through November 2016. This amount will decrease, corresponding with the date on which the loan will be drawn down.

9. For financing most of the cost of two 777-200 aircraft (ECF and ECE) through a sub-lease, as in Note 9.e.2 above, a loan was received in July-August 2007 from a consortium of several foreign banks totaling $219 million, for a 12-year period, to be repaid quarterly, and including a balloon payment of principal at the end of the period. The loan bears variable Libor interest plus a margin.

   The Company incurred costs to arrange the loans, mainly a one-time commission paid to the ExIm Bank, which provided a guarantee for repayment of the loan.

e. As for hedging transactions to fix variable interest rates – see Note 20.a.4.

f. Early repayment:

All existing loans as of December 31, 2007 may be repaid early by the Company. Moreover, in accordance with the terms stipulated in certain agreements, if, in the opinion of the bank, based on reasonable criteria, an event has occurred which adversely affects the Company's financial position or its business or its financial ratios in a manner endangering or potentially endangering the ability to repay any bank loans, then the bank may demand immediate repayment of the outstanding loans owed to it.

g. Restrictions and financial covenants of long-term loans:

1. Ratio between loan balances and collateral-

   All of the loan agreements described in items d.1 – d.4 above stipulate that the market value of the pledged aircraft should exceed the bank-loan balance by 25% and that such an examination should be conducted once a year (in some agreements – twice a year) based on certain, stipulated, international professional publications. The Company has also undertaken that should the actual ratio be lower than the above ratio, it will provide additional collateral, or repay its bank loans earlier, in order to fulfill the ratio requirement.

   As of the financial statements date, the Company has complied with the restrictions and financial covenants stipulated with the banks.

NOTE 14 - LONG-TERM LOANS FROM FINANCIAL INSTITUTIONS (Cont.)

g. Restrictions and financial covenants of long-term loans (cont.):

2. Arrangement with banks prior to privatization –

a. During April - May 2003, the Company received letters from Bank Hapoalim Ltd. ("the Bank"), claiming that, based on the loan agreements the Bank is entitled to demand immediate repayment of all outstanding loans in the event of a change in the Company's status as a "government corporation" under the Government Corporations Law.

Before the privatization, the Bank removed its objection to carrying out the offering of shares to the public, and the State concurrently undertook that, starting from the date of the share offering and tender offer and through December 2004, the State and employee holdings in the Company would not, at any time, decline below 50.00001% of the Company's outstanding share capital (fully diluted).
Within the framework of the abovementioned agreement, the Bank agreed to rescind its demand for early repayment.

On September 28, 2004, the Bank gave the Company its consent that the transfer of control to K'nafaim (see Note 1.b.2) in any manner would not be considered by the Bank as a breach event in the context of the agreements and would not give the Bank the right to demand immediate repayment of any outstanding loans, in whole or in part.

b. In May 2003 Bank Leumi Le'Israel Ltd. (BLL) informed the Company that, should control in the Company be changed or transferred in any way, without its prior written consent, BLL would be entitled to demand immediate repayment of all outstanding loans. Before the privatization, BLL removed its objection to carrying out the offering of shares to the public.

During the year 2004, management requested that BLL agree that the transfer of control to K'nafaim would not give the BLL the right to demand immediate repayment. In this connection, BLL informed the Company that it had no objection to the change of control in the Company whereby K'nafaim would increase its holdings in the Company in a manner that would cause it to be the controlling party in the Company.

BLL's consent is contingent upon the fulfillment of the following conditions:

1. The controlling parties in K'nafaim would be the Borovich family. The term "control" for this purpose is as defined in the Banking Law (Authorization), 1981.

2. The change in ownership referred to above would take place no later than June 5, 2007.

Subject to the above, it was agreed that BLL would not exercise its right to demand immediate repayment of outstanding debts and liabilities of the Company solely as the result of the abovementioned change in control.

NOTE 14 - LONG-TERM LOANS FROM FINANCIAL INSTITUTIONS (Cont.)

f. Restrictions and financial covenants of long-term loans (cont.):

2. Arrangement with banks prior to privatization (cont.) –

b. (Cont.)

Moreover, within this framework, K'nafaim informed BLL that, in light of the Company's present outstanding debt to BLL, and due to the fact that the Company's Board of Directors will, from time to time, formulate a profit-distribution policy for the Company, then as long as the open principal balance of the outstanding debt of the Company to BLL is not less than $50 million, K'nafaim will not support a resolution for profit-distribution at a rate exceeding 60% of distributable retained earnings of the Company from time to time, unless it will consult with BLL regarding any amount in excess of 60%. In the current year, the Company approached BLL to consult about the distribution of a dividend exceeding this rate - see Note 19h.

3. Obtaining additional loans in Israel -

The directives of the Israeli Supervisor of Banks include restrictions according to which the debt of a "single borrower" or "borrowers-group" to a bank in Israel shall not exceed a certain percentage of that bank's shareholders' equity.

These directives may, from time to time, affect the ability of some of the banks in Israel to grant the Company additional credit.

Due to the change in the holdings in the Company, such that K'nafaim holds more than 25% of the Company's issued and outstanding share capital, the Company is deemed to be a part of the K'nafaim Group as far as the restriction of bank credit to a borrowers-group is concerned.

In light of the weight of the Company's long-term loans from banks in Israel, and considering the volume of loans provided by these banks to the K'nafaim Group companies, the Company may have difficulty obtaining additional loans in considerable amounts from banking institutions in Israel that may be required for purchasing new aircraft and for other investments.

g. Liens – see Note 18.

NOTE 15 - OBLIGATIONS FOR THE TERMINATION OF EMPLOYEE-EMPLOYER RELATIONSHIPS, NET

a. Composition:

	Consolidated		Company	
	December 31,		December 31,	
	2007	2006	2007	2006
	(in thousand US dollars)			
Liability for severance pay	140,243	133,743	138,405	132,116
Less: amounts funded	(153,358)	(86,752)	(151,234)	(84,865)
	(13,115)	46,991	(12,829)	47,251
Liability for grant for unutilized sick leave (see Note 15b.4), accrued vacation pay and benefits to retirees	46,977	42,036	46,953	42,017
Liability for consensual retirement plan, net	38,895	37,981	38,895	37,981
Less: current maturity (see Note 15b.12)	(1,821)	(837)	(1,821)	(837)
	37,074	37,144	37,074	37,144
	70,936	126,171	71,198	126,412

b. Additional information

1. General

The liabilities of the Company and its subsidiaries for the termination of employee-employer relationships included in these financial statements represent those not covered by current deposits to recognized pension and severance-pay funds, provident funds and insurance companies. The amounts accumulated in the aforementioned pension funds, provident funds and insurance companies are not under the custody or management of the Group companies and, therefore, neither these amounts not the related liabilities are reflected in the financial statements.

Against part of the above liabilities not otherwise covered, the Company maintains accounts in recognized severance-pay funds into which it deposits amounts in its name and in the name of its subsidiaries. These amounts, which include accrued income, may be withdrawn only after fulfilling the conditions stipulated in the Severance Pay Law.

NOTE 15 - OBLIGATIONS FOR THE TERMINATION OF EMPLOYEE-EMPLOYER RELATIONSHIPS, NET (Cont.)

b. Additional information (cont.)

2. Pension agreement

The social benefits of some of the Company employees have been formalized in a pension agreement signed on September 1, 1992 between the Company, the Histadrut, representatives of employees and the Mivtachim pension fund, based on the industrial pension agreement that was adapted for the particular structure of the population of Company employees.

Membership in the comprehensive pension plan was previously voluntary for veteran employees and mandatory for new employees to whom the collective labor agreement applied and who were able to accumulate the qualification period for entitlement to a pension. (Veteran employees with an age exceeding 55 for men and 50 for women could, under certain conditions, join a comprehensive pension plan and receive a pension even without having completed 10 years of membership.) An employee joining the comprehensive pension must insure part of his salary by pension (ground worker - 50%, air-crew personnel - 25%) and the balance can be covered by managers' insurance or the provident fund for Company employees.

The agreement provided that the Company's payments to the pension fund and an approved fund (managers' insurance or provident fund) for an employee joining the pension plan, will, for all intents and purposes, come in lieu of its severance-pay obligation for that employee, pursuant to Section 14 of the Severance Pay Law for that part of the salary and for that period as to which the payments were made. The employees joining the pension plan are eligible for severance pay and provident fund pay upon retirement from work, for the period beginning with commencement of employment through the date of joining the pension fund and, subsequently, to the rights accrued to their credit in the pension fund.

Starting January 1, 1995, new employees are insured for pensions with the Mivtachim comprehensive pension plan, according to the pension rules to new members.

The retirement age was raised effective 2004. For the effect of this change on the early retirement programs – see Note 15.b.12.e below.

The amendments to the Income Tax Ordinance (Rules for Approving and Managing Pension Funds) (Amendment), 2004, which were enacted in 2005, change the rules pertaining to deposits in, and withdrawals from, pension plans, also in regard to the reduction of the ceiling of the amount insured as equity insurance. In June 2005, the Company signed a special collective labor agreement with the New Histadrut Labor Union-the Professional Union Branch and the Joint Representatives for EL AL employees, enabling the adaptation of the existing provisions to the new rules, at the employee's preference.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 - OBLIGATIONS FOR THE TERMINATION OF EMPLOYEE-EMPLOYER RELATIONSHIPS, NET (Cont.)

b. Additional information (cont.)

3. Severance pay

a. Overview –

Employees who received permanent status through the month of September 1992 are entitled to severance pay for their employment until then, computed on the basis of one month for each year of employment. With regard to the employment period thereafter, the abovementioned employees are entitled to severance pay if they have not joined a pension plan, or a combined plan of pension, managers' insurance and savings in a provident fund (at their personal election) according to the rules prescribed in the collective labor agreement. Employees who subsequently received permanent status in the Company were then obligated to join the pension plan by selecting the appropriate pension combination, but are not entitled to severance pay.

By the privatization date, the Company had concluded arrangements with the employees for assuring severance pay and with the State of Israel to assure financing sources. See item b below.

b. Arrangements with the employees for assuring severance pay and with the State of Israel to assure financing sources

1. On June 3, 2003 the Company reached an agreement with the employees' representatives for covering the deficit of NIS 516,240 thousand (“the Deficit”) in the obligation for termination of employee-employer relationships, with this amount linked to the CPI and bearing annual interest of 5.05% starting June 1, 2003, net of the amounts transferred to a recognized pension fund, from time to time.

   The Company and the State agreed to cover the Deficit by assuring the raising of capital, as outlined below:

   a. Any immediate as well as future proceeds from the initial offering and any proceeds from future offerings of shares or other securities received by June 5, 2007 ("immediate and future proceeds") up to the amount of the Deficit will be transferred to the severance-pay fund as soon as it is received, with the Deficit reduced accordingly;

   b. Should the Company’s immediate and future proceeds not be sufficient to cover the balance of the Deficit at that given point in time, the State would then transfer the amount required to fully cover that Deficit.

NOTE 15 - OBLIGATIONS FOR THE TERMINATION OF EMPLOYEE-EMPLOYER RELATIONSHIPS, NET (Cont.)

b. Additional information (cont.)

3. Severance pay (cont.)

b. Arrangements with the employees for assuring severance pay and with the State of Israel to assure financing sources (cont.)

As soon as this agreement took effect, and subject to its execution, the employees' representatives waived, on behalf of each and every Company employee, any claim against the State with respect to the Deficit or financing it. Moreover, the Company and the employees' representatives undertook to refrain from making any claim, allegation or demand against the State concerning this matter. This understanding went into effect upon the registration of the Company's shares for trade on the Tel Aviv Stock Exchange.

On June 2, 2003 the Knesset's Finance Committee resolved to approve a commitment with respect to this arrangement for purposes of providing a safety net for the employees' severance-pay fund.

On June 3, 2003 the Company's Board of Directors ratified the above agreement.

The following table presents the amounts deposited to the employees' severance-pay fund originating from the proceeds of exercise of purchase options and options exercisable into shares:

Year ended December 31	Amounts deposited by -		
	the State	the Company	Total
	(in thousand US dollars)		
2003	11,296	4,909	16,205
2004	38,396	712	39,108
2005	25,791	535	26,326
2006	775	296	1,071
2007	25,289	24,376	49,665
	101,547	30,828	132,375

After the Company and the State made the above deposits during the current year, the Deficit, as defined in the agreement between the Company, the State and the employees' representatives signed on the eve of the privatization, was covered in full.

Any proceeds received by the Company from the exercise of options (Series 1) were deposited in the severance-pay fund of eligible employees, except for NIS 28 million not yet deposited, which is included in the short-term deposits item as of December 31, 2007.

The Company examines for restrictions on the use of the balance of the proceeds, pursuant to the agreement between it, the State and the employees' representatives signed on the eve of the privatization. Subsequent to the balance sheet date, the Company approached the Controller-General in the Ministry of Finance.

NOTE 15 - OBLIGATIONS FOR THE TERMINATION OF EMPLOYEE-EMPLOYER RELATIONSHIPS, NET (Cont.)

b. Additional information (cont.)

4. Redemption of sick leave

Pursuant to the collective labor agreement, employees are eligible for full payment of up to 30 days' illness per annum (other than new employees who have limited accumulation), which may be accrued throughout all years of employment.

Upon retirement from the Company, in mandatory retirement or retiring after attaining the age of 45, permanent employees (other than executives, beginning from their transition to personal employment contracts) are eligible, if they retired under terms entitling them to severance pay, to a grant for unutilized sick days, at a rate of up to 26.6% of the value of the unused days. The liability for this grant was determined on the basis of the rights accrued for those eligible employees who reached the age of 45 as of the date of the financial statements and is presented in the financial statements at its full, non-discounted value.

5. Temporary employees

Pursuant to the labor agreement signed by the Company and the temporary employees, these employees have joined the comprehensive pension plan, and the Company deposits monthly amounts for them on a current basis.

These deposits cover the Company's obligations for the termination of employee-employer relationships for its temporary employees.

As for the temporary employees who commenced work before the requirement to join the pension plan took effect, the Company records an adequate provision in its accounts.

As regards the extension of the special collective labor agreement pertaining to the employment of temporary staff (collective labor agreement for the continuing generation) – see Note 17.d.1 above.

In November 2002 the New Histadrut Labor Union (hereafter: "Histadrut") filed a motion to become a party to a collective dispute with regard to the temporary air and ground stewards on the following topics:

Non-payment of minimum wage and social benefits during the training course, non-payment of minimum wage and overtime during advanced studies, non-payment of wages to air stewards for ground hours, breach of the collective labor agreement on the issue of new assignment and breach of the collective labor agreement on the subject of vacation and sick-leave.

The relief requested by the Histadrut was declaratory and relates to future entitlements of stewards who will undergo training as well as entitlements of stewards who were trained in the past (subject to the statute of limitation).

NOTE 15 - OBLIGATIONS FOR THE TERMINATION OF EMPLOYEE-EMPLOYER RELATIONSHIPS, NET (Cont.)

b. Additional information (cont.)

5. Temporary employees (cont.)

The Tel Aviv District Labor Court handed down its judgment on March 15, 2005. The principal operative rulings in the judgment were that an employer-employee relationship does exist during the training period and, accordingly, the trainee is entitled to compensation that is not less than minimum wage plus social benefits. As for stewards who took the course in the past, the court stated that each steward is entitled to file a personal claim, as to which the Company would be allowed to assert the statute of limitations and the rate of benefits and payments. The court also ruled that the temporary stewards are entitled to minimum wage plus overtime pay during the training period and are also entitled to vacation days based on years of employment and have the right to receive pay differentials for the past with respect to these two components.

The court dismissed the claim for ground hours for temporary air stewards and dismissed the claim for new assignment and the computation of sick-leave compensation for the ground stewards.

On July 27, 2005 the Company signed a special collective labor agreement constituting a compromise agreement between the Company, the Histadrut and the employees' representatives, that went into effect at the beginning of September 2005. This followed the signed consent to the agreement by the currently employed 1,250 stewards who are entitled to file a claim under the court judgment. This compromise agreement detailed the payments and the rules based on which the Company's obligations to the employees would be fully discharged in accordance with the court judgment.

6. Air-crew personnel

Air-crew personnel are entitled, according to an agreement, to receive the higher of severance pay for their period of employment through December 1979, computed on the basis of their last salary, or their salary for the month of December 1979 (net of the part of the salary for which severance pay had been paid in the past - 20%), linked to the Israeli CPI. As for the period subsequent to December 1979, the Company's liability for severance pay is computed on the basis of their last salary.

As for the Company's communication regarding the retirement age of the pilots – see Note 15b.12.e below.

7. Company executives

Company executives are employed under personal employment agreements. These employees are entitled to receive additional severance pay for the period of their employment of 100%, in excess of the balances accumulated in the pension funds and/or insurance companies.

NOTE 15 - OBLIGATIONS FOR THE TERMINATION OF EMPLOYEE-EMPLOYER RELATIONSHIPS, NET (Cont.)

b. Additional information (cont.)

8. Employees posted abroad

Among the Company employees abroad are permanent workers who are Israeli residents, relocated to fulfill managerial positions abroad, usually for periods ranging from four to six years ("posted employee").

Salaries of the posted employees while serving abroad ("compensation abroad") are different than Israeli wages, and take into account the local standard of living and taxation, and the fact that the salary is subject to tax and social-insurance deductions both abroad and in Israel.

In addition to the salaries of the posted employees, the Company bears the cost of their housing and tuition fees for their children. Salaries plus rent and tuition are paid by the Company under the Israeli income tax regulations. As for the income tax authorities' claim regarding deductions–see Note 17.a.8 below.

The obligations for termination of employee-employer relationships for those employees are determined on the basis of wages paid to employees at their level that they are employed in Israel.

9. Local employees in Company branches abroad

Most Company employees abroad, other than the Israeli posted employees, are engaged under collective labor agreements between the Company and the union in that country, or under employment agreements with the employees' representatives, with a few under agreements between the employers' organization (foreign airlines) and the umbrella organization of airline employees, or under other agreements. The employment terms of Company personnel in certain countries are not covered by a collective agreement but rather stipulated by the Company, in accordance with the acceptable practice in the airline industry or the national airlines in those countries. In some branches, the employees are engaged under personal contracts or through a contractor.

Some of the branches are committed to pay severance pay according to law or agreement while other are obliged to adhere to national or other pension insurance. The Company transfers regular payments for the pension insurance while providing in its accounts for the obligation for severance pay.

Some of the local employees of the Company who are residents of the US and Britain benefit from pension plans ("the plans"), with the pension cost of the branch employees being paid for by the Company. The cost of the pension is computed as a multiple of the "years of eligibility" for the pension multiplied by the rate of salary determined as entitled to pension. Retirement commencing at the age of 65 ordinarily entitles the employee to full benefits. The pension-plan assets, which are invested mainly in marketable securities, are not owned by the Company. The Company is obliged to cover any deficit that would be created in the value of the funds' assets relative to any actuarial obligation, should such deficit be created.

The Company adequately provided in its financial statements as of December 31, 2007 for the difference between the actuarial liability for the employees in the US and Britain, who were included in the pension plans, and the amount of the pension plans.

NOTE 15 - OBLIGATIONS FOR THE TERMINATION OF EMPLOYEE-EMPLOYER RELATIONSHIPS, NET (Cont.)

b. Additional information (cont.)

10. Security personnel

Payments to discharge obligations for termination of employee-employer relationships related to personnel employed by the Company or by a governmental entity to protect the Company's services are made out of the State budget for aviation security. There is no employee-employer relationship with the Company for most of these employees and, accordingly, no provision was included in these financial statements to cover such payments.

With regard to the Company's participation in the Government's expenses for defending the Company's services (including participation in the above expenses) - see Note 21c.

11. Employees of subsidiaries

Employment terms of the Company's main subsidiaries in Israel are regulated by labor agreements, pursuant to which the obligation for termination of employee-employer relationships is computed on the basis of their last salary and of pension arrangements, as applicable.

The employment terms of the main foreign subsidiaries are regulated by collective labor agreements in those countries and in accordance with local laws and practices.

12. Consensual early retirement programs

a. General -

Within the framework of the Company's cost-cutting and efficiency measures, the Company has, since 2000, been implementing a retirement plan pertaining mainly to veteran employees.

In this context, the Company has signed agreements with Mivtachim – Institution of Social Insurance for the Employees Ltd. ("Mivtachim") with Clal Pension and Provident Services Ltd ("Clal"), guaranteed by the State of Israel or by a bank guarantee.

b. Highlights of the agreement with the retiring employees and with Mivtachim and Clal:

1. Receipt of an annuity from date of retirement until the age of 65, and for part of the employees until legal retirement age (men and women), up to 70% of pension-base gross salary. The payment of the annuity shall not exceed 10 years;
2. Mivtachim or Clal will pay the pension directly to the employee;
3. The retirement arrangements have been formalized in a series of agreements between the Company and the employee, the employee and Mivtachim or Clal and the Company and Mivtachim or Clal;
   Pursuant to these agreements, Mivtachim and Clal undertake to guarantee the pension payments against a back-to-back guarantee to be given to it;
4. All employee-employer relationships between the Company and the employee are terminated upon retirement.

NOTE 15 - OBLIGATIONS FOR THE TERMINATION OF EMPLOYEE-EMPLOYER RELATIONSHIPS, NET (Cont.)

b. Additional information (cont.)

12. Consensual early retirement programs (cont.)

c. Highlights of the agreement with the State of Israel, as approved by the Knesset Finance Committee:

In an effort to assist the Company in implementing the above retirement programs, the Company signed an understanding with the Controller-General, representing the State, on April 4, 2002, to arrange the commitment made by the State at the time of privatization to finance the deficit in the provision for severance pay for those personnel continuously employed by the Company up to the end of the year 1982. In the context of the accord, the following was agreed, irrespective of privatization:

1. The State will provide a guarantee to Mivtachim – Institution of Social Insurance for the Employees Ltd. or other financial institutions, including banks, in connection with the financing of the provision deficit related to the employee retirement program. The State guarantee will be $ 80 million.
2. Following the State's discharge of its obligation to provide that guarantee, the Company would have no further demands of any kind against the State in connection with the historical accounting regarding those employed by the Company until the end of the year 1982.
3. In the event of privatization, the Company's new owners would be required to provide guarantees in lieu of the State's guarantee. This requirement was abolished by the Knesset's Finance Committee on June 2, 2003, before the privatization date.

d. Additional information:

During the years 2000 through 2007, the Company's management adopted resolutions relating to early retirement programs for 655 employees, for which provisions were recorded in the Company's accounts. As of December 31, 2007, 558 employees had concluded their actual retirement from the Company within the framework of the abovementioned programs.

The aforementioned retirement plans include two new groups of 22 and 28 additional employees, for whom decisions were reached by Company management during the current year, and for which a provision was recorded in the financial statements as of December 31, 2007 (see Note 21.g.2). These employees will be included in the early pension payments.

The financial statements as of December 31, 2007 include the balance of an accrual in a total amount of $ 59,269 thousand for financing the retirement of approximately 467 employees, (after a group of employees included in the original retirement programs reached retirement age through December 31, 2007 with a provision no longer recorded for them in the financial statements).

Within that framework the Company deposited funds for assuring early retirement pension payments to employees, the balance of which as of December 31, 2007 amounted to $ 20,374 thousand. The total net provision for retirement plans as of December 31, 2007 is $38,895 thousand.

NOTE 15 - OBLIGATIONS FOR THE TERMINATION OF EMPLOYEE-EMPLOYER RELATIONSHIPS, NET (Cont.)

b. Additional information (cont.)

12. Consensual early retirement programs (cont.)

d. Additional information (cont.):

The balance of the State's guarantees in favor of Mivtachim and Clal with respect to the retirement programs amounted as of December 31, 2007 to approximately $ 27.4 million.

As the Company formulates and decides upon consensual retirement programs in the future, subject to the cooperation of the employees' representatives, the Company will not be entitled to receive additional guarantees from the State of Israel. Additional retirement programs will be executed with Company guarantees.

e. Change in retirement age

Within the scope of the Law for Economic Recovery of the Israeli Economy and the Retirement Age Law, 2004 it was determined, among other things, effective from the year 2004, that:

1. The age at which employees (both men and women) may be forced to retire from their jobs will be 67 ("Mandatory Retirement Age").
   Mandatory retirement age will apply to every employee whether insured by managers' insurance, or not insured by any insurance.

2. Employees who are insured by pension plans may be forced to retire at the ages of 67 (male) and 64 female (the age is graduated according to the transitional provisions stipulated in the law and the addendum to the law).

   Employees (male or female) retiring after the age of 60 but before reaching retirement age will be entitled to receive reduced early pension during this period.

3. Starting January 1, 2004, the pension contribution rates (for both employee and employer) were raised (gradually over the years 2004-2006, up to an additional rate of 1.5% for the employee and 1.5% for the employer).

The effect of the above change on the early retirement programs:

a. The raising of the retirement age and the increase in pension contributions has increased the Company's liability with respect to the consensual retirement programs by approximately $ 2.5 million (including the additional pension contribution that the Company will be required to transfer to the pension fund until retirement age), which was recorded to other expenses for the year ended December 31, 2004 and which is fully provided for in these financial statements.

NOTE 15 - OBLIGATIONS FOR THE TERMINATION OF EMPLOYEE-EMPLOYER RELATIONSHIPS, NET (Cont.)

b. Additional information (cont.)

12. Consensual early retirement programs (cont.)

e. Change in retirement age (cont.)

b. In addition, there is a group of veteran employees that retired pursuant to an early retirement program before the date of the change in retirement age ("the Veteran Employees").

Pursuant to an agreement signed between the Government and the Economic Organizations' Liaison Bureau on January 5, 2005 to amend the package agreement signed by the parties, it was agreed that the Government would finance the additional cost associated with the raising of the retirement age for employees leaving under early retirement programs by December 31, 2003.

c. Furthermore, the Company asked the Director-General of the Finance Ministry to keep the retirement age of pilots (as stipulated in the flight regulations) unchanged (65 years) but this request was rejected. Otherwise, the change in retirement age and the increase in pension contributions do not materially affect the Company's current expenses.

d. As for a lawsuit filed against the Company in this matter – see Note 17a.7 below.

NOTE 16 - OTHER LONG-TERM LIABILITIES

	Consolidated		Company	
	December 31,		December 31,	
	2007	2006	2007	2006
a. Composition:	(in thousand US dollars)			
Loans to finance purchase of cargo plane (see b)	-	1,992	-	1,992
Capital leases (see c)	807	1,046	639	858
	807	3,038	639	2,850
Less: current maturities	(384)	(2,308)	(384)	(2,308)
	423	730	255	542

b. The Company received a loan during the year 2004 in the amount of approximately $ 6.3 million in order to finance the acquisition of a cargo aircraft, repayable in 36 monthly installments. The loan bears a fixed interest rate. In the current year, this loan was paid off.

As for liens - see Note 18b.10.

c. During 2006, the Company entered into two capital lease agreements for the acquisition of computer and other equipment in a total original amount of $ 1,014 thousand. This equipment is included in the framework of the Company's fixed assets.

During 2007, the Company entered into another agreement to upgrade a computer system, against long-term credit totaling $98 thousand (see Note 9.g).

NOTE 17 - COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

a. Lawsuits and other claims

As of December 31, 2007, legal claims in a total amount of approximately $ 229 million had been filed against the Company with respect to which the Company had recorded provisions in the financial statements, based on the Company's legal counsel, of approximately $ 4.1 million.

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.

The above amounts exclude various claims against the Company which, in management's opinion, are covered by adequate insurance policies and handled by the insurance companies under their responsibility.

The aforementioned amounts of claims and provisions do not include income tax-withholding assessments and income tax demands (see Note 17.a.8 below).

In the assessment of Company management, based upon the opinions of its legal counsel, it is not anticipated that the Company will be exposed to an additional loss with respect to the abovementioned claims in excess of the above provisions recorded in the financial statements.

NOTE 17 - COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (Cont.)

a. Lawsuits and other claims (Cont.)

The following is a detailed summary of material legal and financial claims:

1. In October 1998, a lawsuit for NIS 230.4 million (approximately $59.9 million as of the balance sheet date) was filed in the Nazareth District Court against the Company, along with a motion to recognize it as class action. The claim relates to excess collections of airline ticket prices by travel agents derived, allegedly, by using improper exchange rates. During 2002, the court approved the request for class-action recognition under the Consumer Protection Law. The Company filed an appeal with the Supreme Court. Based on the opinion of its legal counsel, Company management believe that the Company will not be found liable in this claim. No provision for this claim has been included in the financial statements.

2. A lawsuit for NIS 21.7 million (approximately $ 5.6 million as of the balance sheet date), was filed in September 1999 in the Tel-Aviv District Court against the Company, the Aviation Authority and Ophir Tours (a travel agency), together with a motion for recognition as a class action. The plaintiff alleges that the travel agent charged it travel tax at a rate above the legal limit, which is the representative exchange rate, and that the Company is also responsible for the actions of the agents in this matter. During 2002, the court approved the motion to recognize the claim as a class action for breach of a legal obligation based on Regulation 29 of the Legal Order Regulations. The Company filed a motion for leave to appeal to the Supreme Court.

   In October 2005, judgment was handed down in the matter of Eshet, in which the Supreme Court ruled that class actions are possible strictly on the basis of specific laws which include that possibility but not in accordance with Regulation 29 of the Civil Legal Order Regulations.

   Consequently, the parties were requested to submit their position to the court in connection with the continuance of the proceedings. The plaintiff gave notice that it planned to continue the proceedings on the basis of the Consumer Protection Law, and this was not approved by the District Court. The court has not yet ruled on that issue. Based on the opinion of its legal counsel, the Company believes, at this stage, that the Company is not expected to be found liable in this claim.. No provision for this claim was included in the financial statements.

3. On January 22, 2007, a claim was filed against the Company in Jerusalem District Court, together with a motion for recognition as a class action, in the amount of NIS 483.4 million ($125.7 million as of the balance sheet date).

   The plaintiffs allege that the collection of a security fee of $8 per flight leg, from passengers in flights that are not flown by the Company itself, but by other airlines under code sharing arrangements, constitutes misleading the consumer, breach of the agreement with him, the absence of good faith and unlawful enrichment, since, the plaintiffs allege, these flights do not provide security services at the same standard and quality as the services provided by the Company.

   The plaintiffs are requesting that the Company be required to pay each of these passengers the sum of $8 as well as damages of NIS 500 for emotional distress and loss of benefit.

   In the Company's estimation, based on the opinion of its legal counsel, the Company is not expected to be found liable for this claim. A provision for this claim was not recorded in these financial statements.

NOTE 17 - COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (Cont.)

a. Lawsuits and other claims (Cont.)

4. On March 19, 2007, a claim was filed in Tel Aviv District Court against the Company, together with a motion for recognition as a class action. The plaintiff alleges that customers who purchase airline tickets directly (and not through travel agents), using credit cards, are charged in foreign currency instead of in Israeli currency, with a payment of a conversion fee of 2% of the price of the ticket (for conversion of the foreign currency payment into an Israeli currency payment) to the credit card companies, which constitutes a violation of the Consumer Protection Law, 1981, a breach of the duty to act in good faith and unlawful enrichment. Also alleged was a violation of the obligation to advertise the "total price", and that it is the Company that needs to bear the conversion fees. Additionally, the plaintiff alleges that the charging of customers in foreign currency and not in shekels is by itself a violation of the Consumer Protection Law. The plaintiff is requesting that the Company be required to pay damages to every member of the class in the amount of all the conversion fees unlawfully collected and to issue an order against the Company stipulating that the collection of payments in foreign currency and the related charges of fees was unlawful, and to prohibit the Company from continuing to collect payments in foreign currency and to roll the conversion fee payments to its customers. In the estimation of Company management, based on the opinion of its legal counsel, the Company is not expected to be found liable for this claim. A provision for this claim was not recorded in these financial statements.

5. 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 ($25 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 calculated without any connection to the Company's ordinary flight prices. The Company is studying the claim and is preparing to file its response. A provision for this claim was not recorded in these financial statements.

6. In October 2005, a claim was made in the Supreme Court of Ontario, Canada against the Company and additional defendants by a former employee of the Company for alleged sexual harassment and sexual molestation. The amount of the claim was approximately 2.2 million Canadian dollars (approximately $2.2 million as of the balance sheet date). A provision for this claim was not recorded in these financial statements.

NOTE 17 - COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (Cont.)

a. Lawsuits and other claims (Cont.)

7. 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 the years 2001-2003. 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; alternatively, the claimants appealed for declaratory relief/order of performance to revoke the retirement agreements.

   The principal relief claimed is to "amend" the retirement agreement so that the claimants will be eligible to receive budgetary pension through the age of 67, in parallel to which they will be entitled to have the Company continue to deposit provisions for them until that time to the pension funds.

   The claim was not quantified and therefore it means the continuation of such payments for an additional period for each claimant of two years.

   A writ of defense was filed in which it was alleged that the claim should be rejected out of hand, both for the reason that all of the claimants left their employment under early retirement and signed retirement agreements which included a section stating absence of claims, and also due to lack of quantification of the claim.

   It was also alleged that the claimants who had elected not to join the pension fund, over the years, did not pay the employee's share of pension contributions to the pension fund, in contrast to the employees who joined the pension fund; and unlike the employees who joined the pension fund, the claimants chose not to do so and received full severance pay for the entire period of their service upon termination of their employment. The Company also presented additional defense claims.

   The claim is in the stage of preliminary proceedings.

   Pursuant to the court's ruling, the claimants quantified the claim at NIS 18.1 million ($4.7 million as of the balance sheet date). In these financial statements, the Company recorded an adequate provision, based on the opinion of its legal counsel.

8. **Income tax – withholding tax**

   The Company received agreed assessments for withholding tax through the 2004 tax-year.

   As for the matters remaining in dispute, the Company received assessments for the years 1998-2004, followed by demands for the years through 2002, amounting to approximately $27.4 million, including interest and linkage (not including fines).

   The Company appealed the demands to the Tel Aviv District Court, and, the Company filed an objection with the courts with regard to the demand for the years 2003-2004.

NOTE 17 - COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (Cont.)

a. Lawsuits and other claims (Cont.)

8. **Income tax – withholding tax**

The following issues remain in dispute:

a. Computation of benefit-in-kind to employees for flight tickets –according to Company procedures, the Company charges a benefit-in-kind to employees for airline tickets granted to them on the basis of seats available at a rate of 22.5% of the average price to the public at large for a flight ticket in the most common tourist section, and at value of 50% of airline tickets on the basis of a guaranteed seat.
The tax authorities demand that this computation be based on economic value, whereas the Company claims, based on the advice of its professional advisors that the economic benefit does not exceed the amount that it charges.

b. Company employees posted abroad –a demand to pay tax in Israel for Company employees posted abroad in excess of four years, when their occupation abroad is identical to that in Israel and, as to employees in the US, the disallowance of city, state and social-security taxes paid by the Company.

The financial statements as of December 31, 2007 include an adequate provision, which, in management's opinion, based on the advice of legal counsel, covers the anticipated liability with respect to the above withholding tax assessments and tax demands, including the additional period up to, and including, the year 2007.

b. Legal proceedings abroad in the area of business restrictions

1. In February 2006, the Restrictive Practices Division of the U.S. Justice Department ("Restrictive Practices Division ") began an open investigation, together with additional competition authorities of other countries, of supposed suspicion of price fixing with respect to certain increments to prices of air cargo transport. A number of cargo transporters announced that they had received Grand Jury injunctions in connection with this investigation. On September 27, 2006, the Company received an injunction from the Restrictive Practices Division that had been issued by the Grand Jury, which demands information and documents concerning certain costing and cost increment practices in the area of cargo transport, commencing from the year 1999 and through the date of the injunction. The Restrictive Practices Division notified the Company that the Company is being examined as a suspect in this investigation. The Company is cooperating with the investigation, while performing an internal audit of its own of the cargo costing practices. The Company has sent the requested information to the Restrictive Practices Division, and is continuing to work in coordination with it and according to its instructions. At this stage, the Company is unable to assess the outcome of the investigation of the Restrictive Practices Division or to estimate the possible financial effect of the investigation, and consequently, the financial statements do not include a provision for this investigation. Nevertheless, it should be pointed out that the consequences could include administrative or civil procedures and/ or a criminal indictment, including penalties and/ or civil charges. It should also be stated that punishments for the violation of competition statutes could be serious, both with regard to criminal charges and also as to civil charges.

NOTE 17 - COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (Cont.)

b. Legal proceedings abroad in the area of business restrictions

2. During the month of December 2006, the Company received a letter from the European Competition Commission ("the Commission"), which was transmitted to the Company's offices in Germany and contained a request for information in connection with an investigation being carried out by the Commission. The letter stated that the demand for information is in the context of an investigation being carried out by the Commission in connection with activities which, seemingly, cause damage to competition in the sector of air transport services for cargo, and that the Commission has information regarding extensive contacts that took place between airlines companies with regard to various price increments and other matters such as cargo transport rates.

   In the context of the letter, the Company was requested to transmit data and documentation regarding the Company and its cargo activities, commencing with the year 1995. The Company sent its response as requested by the Commission's letter, while carrying on an internal audit of cargo pricing practices. At this stage, the Company is unable to evaluate the outcome of the investigation of the Commission or to estimate the possible financial effect of the investigation on the Company. Consequently, these financial statements do not include any provision for this investigation.

   According to the publications of the Commission and several foreign companies, the Commission in December 2007 sent a "claim letter" to several airlines in connection with the said investigation, containing claims of alleged violation of the competition laws of the European Union. The Company has not as yet received the said claim letter, and to the best of its knowledge, is not among the companies to which the claim letter was addressed.

   Nevertheless, it should be pointed out that the implication might include an administrative proceeding against the Company, include a severe fine which could be imposed on the Company at the end of the proceeding.

3. The aforementioned proceedings related to the investigations of restrictive practices authorities could have a material effect on the Company due to the penalties that these bodies are authorized to impose and which could be particularly high..

4. At the end of February 2007, the Company received a writ of civil claim that was filed in the court in New York in the matter of the prices of cargo air transport services.

   The Company was included in the writ of claim which was filed as aforesaid, along with 38 other airlines, with the claim being that the defendants were partners in a conspiracy to conform prices for cargo air transport services since 2000, in violation of the competition laws in Europe and the United States.

   The claim was filed on behalf of bodies purchasing air cargo services, directly and indirectly, in Europe and the U.S., and includes a motion for class-action recognition. The claim includes a request for damages at an amount not estimated and other relief.

   The Company joined a joint defense team in which other airlines being sued are included, within the scope of which several preliminary motions were filed with the court, including a motion to dismiss the writ of claim.

   In view of the early stage of the process, the Company is unable to assess the implications or the monetary effect of the proceeding on the Company and therefore, has not made any provision for this claim in these financial statements.

NOTE 17 - COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (Cont.)

c. Guarantees

Composition of guarantees provided by the Company to third parties:

	December 31, 2007
	(in thousand US dollars)
To secure employee retirement programs	6,943
To secure employee loans	227
To secure subsidiaries' liabilities	1,676
To airport authorities, customs authorities and other third parties	4,643
	13,489

d. Commitments

1. Collective labor agreements

On May 20, 2004 the Company signed several collective labor agreements with the Histadrut and the employees' representatives, as follows:

a. The special collective agreement for Company employees was extended to December 31, 2005.

b. At the same time, a collective labor agreement for the next generation of employees in administrative, operative and air-steward professions was signed. This agreement, which will remain in effect until December 31, 2008, will enable the Company to hire trained temporary workers, will prevent the loss of professional know-how, will enable the Company to achieve efficient improvement in the wage area during the coming years for the Company and will allow it to acquire administrative flexibility.

c. The effective date of the special collective labor agreement concerning the hiring of temporary workers was extended to December 31, 2008.

On September 5, 2006, the Company, the Histadrut and employees' representatives signed a special collective agreement that extends the effective date of the special collective agreement with respect to the permanent Company employees ("Generation A Agreement") through December 31, 2007. On October 5, 2006, the Board of Directors of the Company ratified this agreement.

Under the terms of the special collective agreement, the Company committed that if the Company will have pre-tax income for 2007 exceeding $10 million, the employees will receive a grant deduced from their salaries. The financial statements as of December 31, 2007 included adequate provisions to cover the liabilities deriving from the labor agreements.

As of the approval date of the financial statements, the Company's management has entered into negotiations with the employees' representatives for purposes of finding joint and agreed solutions for introducing efficiency steps in the Company, and changing the terms of the above special collective agreement.

Pursuant to the collective agreement, during the period of negotiations, although for no more than six months from its effective date, this agreement will remain in effect and at the end of the said six months, will be deemed a collective agreement for an unspecified period.

NOTE 17 - COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (Cont.)

d. Commitments (Cont.)

2. Leasing and rental fees

a. The Company leases planes under operating leases, generally in consideration of monthly leasing fees plus a payment for reserves for maintenance, based on actual flight hours. Most of the agreements include options for extending and shortening the leasing contracts.

b. The following is detail of the minimum lease fees for the fixed components (but excluding the payment for the maintenance reserves) payable for the leased aircraft:

Year	Aircraft operating leases (in thousand US dollars)
2008	22,691
2009	21,583
2010	18,365
2011	7,653
Total	70,292

c. In addition, the Company has agreements for leasing aircraft, generally on payment of monthly leasing fees plus a payment for maintenance reserves.

d. The Company has lease commitments for land and buildings in Israel and abroad, including in various airports, as well as offices used by its branches.

3. Commitments with the Airports Authority (AA)

a. The Company has a use-right (permit) to 290 hectares of land at BGA until December 31, 2010 (with an option to renew it for an additional 25-year period).

Before privatization, on May 19, 2003, the Company and the AA, with the approval of the Ministerial Committee for Social and Economic Affairs, reached an understanding concerning new permit fees for which the Company will be obligated to the AA.

Under this agreement, the annual payment for the areas referred to above will be $ 960 thousand in 2005, rising by 7.4% per annum up to a maximum of $4 million per annum.

b. On October 19, 2004, this agreement was amended, to include, in addition for the payment for the land, annual usage fees for certain fully depreciated buildings and installations. The payment will rise gradually, starting with $ 900 thousand for the year 2006 and up to a maximum amount of $ 4 million in 2025.

c. The Company has a usage fee agreement (permit) with the AA for a passenger service warehouse in BGA encompassing 4,380 square meters. The annual usage fees are $480 thousand. The agreement is in effect until December 31, 2009.

d. The Company is obliged to pay flight fees, airport taxes and permit fees to the AA. The Company enjoys the maximum reduced rate due to the volume of its activity at BGA.

NOTE 17 - COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (Cont.)

d. Commitments (Cont.)

e. In November 2004, within the framework of Ben Gurion 2000, the AA opened Terminal 3. The project includes a new passenger terminal-Terminal 3, aircraft parking areas and service-support areas to institute the services required to operate the location. The AA shut down the present Terminal 1 and will designate it for internal flights.

Until Terminal 3 was opened, all of the Company's installations were adjacent to Terminal 1: offices, aircraft parking spaces, hangars, warehouses and various workshops. Following the transfer of the activity to Terminal 3, the Company was forced to relocate part of its activity to Terminal 3 and its new adjacent areas.

The agreement between the Company and the AA for use of the passenger lounge in Terminal 3 was signed during December 2006.

The agreement is in effect until November 2010, for total consideration of up to $1,750 thousand per annum, plus an option for a 3-year extension. Additionally, agreements were signed to give permission for other areas in Terminal 3 until November 2014, for consideration of $1,770 thousand per annum.

In April 2000, the Company signed a new agreement-in-principle for leasing 20 hectares in order to set up a maintenance center, a hangar and supporting facilities within the framework of Ben Gurion 2000. The AA council ratified the transaction but it is subject to the signing of a detailed agreement between the parties as well as the ratification by the Company's Board of Directors.

4. Commitments for maintenance of engines and aircraft

The Company has several agreements with various entities for maintenance services to engines and planes. The agreements are long-term (up to 20 years). Some of the agreements are based on Time & Materials while others are based on cost per hour flown.

5. Regarding commitments to purchase aircraft subsequent to the balance sheet date – see Notes 26.2, 26.3 and 26.4.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 - LIENS

a. The following is detail of the Company's liabilities that are secured by liens:

	December 31, 2007 (in thousand US dollars)
Short-term bank borrowings (excluding current maturities)	3,619
Long-term bank loans (including current maturities)	785,515
Accrued interest	10,209
	799,343
Of which:	
Banks in Israel	468,348
Banks abroad	330,995
	799,343

1. Fixed and specific first-tier pledge and lien in favor of banks in Israel on two 747-400 aircraft, three 777-200 aircraft (ECA, ECB and ECC), and five aircraft from the 737 fleet, five 767 aircraft (the entire 767 fleet, except for one plane designated EAA), and three 757 aircraft, designated EBS, EBT and EBV.

The pledges and liens cover all the engines, rights deriving from leasing or use of aircraft, or from contracts or insurance policies and also on rights for compensation or indemnification in connection with those aircraft.

In addition, a first-tier floating lien was registered on all the engines and auxiliary equipment installed on the abovementioned aircraft from time to time, as well as the insurance rights with respect to them.

No additional lien may be registered on those assets or the assets and not be transferred without the bank's advance, written consent.

2. Fixed and specific first-tier pledge and lien in favor of a trustee for collateral (see Note 9.e.1) on all of the Company's rights in a fourth 777-200 aircraft (ECD).

The pledge and lien include all the rights deriving from contracts connected to the plane, rights to indemnification or insurance proceeds for of the aircraft, engines, or any related to it and all rights under from the lease agreement for the aircraft.

In addition, the Company assigned by way of a pledge in favor of a foreign company (see Note 9.e.1) all of the existing and/or future rights arising from insurance policies for the fourth aircraft.

NOTE 18 - LIENS

b. Details of assets pledged as security for the liabilities referred to above as of December 31, 2006:

3. Fixed and specific first-tier pledge and lien in favor of a trustee for collateral (see Note 9.e.2) on all of the Company's rights in 2 additional 777-200 aircraft (ECE and ECF).

The pledge and lien include all the rights deriving from contracts connected to the plane, rights to indemnification or insurance proceeds for the aircraft, engines, or any related to it and all rights under the lease agreement for the aircraft. In addition, the Company assigned by way of a pledge in favor of a foreign company (see Note 9.e.2) all of the existing and/or future rights arising from insurance policies for these two aircraft.

4. A pledge in favor of a bank in Israel on two spare engines serving the 767 and 747-400 aircraft fleets.

5. In order to secure a long-term loan received from Leumi Leasing Ltd. for the purchase of an engine for the 777-200 fleet, the Company registered a first-tier lien on the engine, unlimited in amount (including the rights deriving from insurance as well as rights of compensation or indemnification).

6. In order to obtain financing from a foreign banking institution during 2006, as described in Note 14.d.8, the Company pledged all of the Company's rights in a 747-400 (ELA) aircraft in favor of that bank in a fixed first-tier lien, including 4 engines and all other components installed in the aircraft (including any engine of other part which will be installed in the aircraft from time to time), and assigned all of the existing and future insurance and compensatory rights with respect to the aircraft.
No additional lien may be registered on those assets and the assets may not be transferred without the bank's advance, written consent.
Additionally, the Company was obligated to pledge an additional 747-400 aircraft (ELB), when additional financing will be received from that same foreign bank, as mentioned in Note 14.d.8.

7. In order to secure the Company's liabilities for the utilization of credit lines provided to it by two banks in Israel (including the furnishing of bank guarantees), the Company pledged its revenues from three specific travel agencies in Israel by way of mortgaging and registering first-tier floating and perpetual liens and by way of assignment of rights in the form of a pledge.

8. A lien in favor of an Israeli bank on funds deposited or to be deposited from time to time, including income thereon, in the Company's accounts in the London branch of such bank.

9. A lien in favor of the Bank for the Encouragement of Industry in England-ECGD on a spare engine for the 777-200 fleet which had been acquired with a loan obtained from a foreign bank (as explained in Note 14d.6) to which ECGD had provided a guarantee. This pledge includes insurance, compensation and indemnification rights.

10. After several loans were paid in full during the current year, the following three aircraft were released from liens: one 747-400 aircraft (ELC), one 757 aircraft (EBU) and one cargo plane (AXM). Removal of the liens from the Corporate Registrar is not yet complete as of the approval date of the financial statements.

NOTE 19 - SHARE CAPITAL

Following the publication of a prospectus in May 2003 (and amendments to the prospectus dated June 3 and 4, 2003) (hereafter: “the Prospectus”) for the issuance of shares and options to the public, together with a tender offer made by the Government, the Company’s securities were registered for trading on the Tel Aviv Stock Exchange in June 2003.

a. Tender offer and Prospectus

1. Based on the Prospectus, the Company issued to the public 17,000,000 ordinary shares of NIS 1.00 par value each (“OS”) registered to bearer, with total par-value of NIS 17,000,000, together with 100,000,000 options (Series 1) registered to bearer, with each option exercisable into one OS of NIS 1.00 par value at a cash exercise price of NIS 1.34 per option; starting December 12, 2004 and until June 5, 2007, together with a tender offer of 32,000,000 OS of NIS 1.00 par value registered to bearer, made by the State of Israel, with total par-value amount of NIS 32,000,000, together with 138,400,000 purchase options registered to bearer (Series A), with each option exercisable into one OS of NIS 1.00 par value, at a cash exercise price of NIS 1.30 per option, by June 5, 2004, and together with 157,600,000 purchase options registered to bearer (Series B), with each option exercisable into one OS of NIS 1.00 par value at a cash exercise price of NIS 1.32 per option, starting December 12, 2004 and through June 5, 2007.
   The cash exercise increment of the options is linked to the CPI of April 2003.

2. Pursuant to the Prospectus, the State of Israel offered eligible employees to purchase up to 34,685,642 OS of NIS 1.00 par value by way of a tender offer made by the State, at a discount of 30% from the share’s par value in alternative A of the issuance tender (NIS 0.91 per share). The shares were offered in trust and they were blocked until December 31, 2004. The employees will bear any tax resulting from the exercise of the offer.

   The offer to the employees included a tender offer of 32,222 shares to former interested parties who were employed by the Company, at a discount and on the same terms granted to the other eligible employees, as defined in the offer to employees.
   Following the response by part of the eligible employees for the acquisition of 2,158,426 OS of NIS 1.00 par value, the Government allotted them the above number of shares in exchange for approximately $ 445 thousand.

   In December 2005, the Company’s local employees working abroad received a grant from the Israeli government equaling 30% of the value of the shares to which a local employee working in Israel would have been entitled.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 19 - SHARE CAPITAL (Cont.)

a. Tender offer (cont.)

3. On June 3, 2003, the State approved a written undertaking towards the employees' representatives, according to which: a proposal to eligible employees without full response would enable the entity established on behalf of the employees to acquire the offered shares up to 34,685,642 OS of NIS 1.00 par value each ("the Remaining Shares") at the end of one and one-half years from the publication date of the prospectus, at an exercise price equaling 30% of the shares' average closing price on the stock exchange during the 90 trading days preceding the exercise date or NIS 1.3 per share – the lower of the two.

   The purchasers of the Remaining Shares undertook to refrain from any transaction or action in the Remaining Shares during a 24-month period following the closing date.

4. On February 23, 2005, the employees established an entity ("Holdings in Trust of EL AL Employees Ltd.), which acquired the Remaining Shares, as noted in item 3 above, from the State i.e., 32,527,216 OS in accordance with the written undertaking granted by the State to the employees' representatives, thus converting the employees' entity into an interested party of the Company. As of December 31, 2007, the employees' entity holds 6.56% of the Company's issued and outstanding share capital.

b. Share capital of the Company as of December 31, 2007:

	Authorized		**Issued and outstanding**	
	Special share	**Ordinary shares**	**Special share**	**Ordinary shares**
	NIS 1.00 par value			
	NIS			
Balance – January 1, 2007	1	550,000,000	1	400,788,334
Exercise of options (Series 1) (see c below)	-	-	-	94,930,801
Balance – December 31, 2007	1	550,000,000	1	495,719,135

c. In the period from January 2007 through June 5, 2007, the public exercised 94,930,801 options (Series 1) for the same number of OS, NIS 1 par value each, issued by the Company, in consideration for $31,820 thousand.
These proceeds were deposited in the severance pay fund of eligible employees, except for NIS 28 million not yet deposited, as in Note 15.b.3.b.

d. On March 23, 2006, the General Meeting of the Company approved the increase of the Company's authorized share capital by NIS 54,279,453, bringing the total to NIS 550,000,001 after such increase, divided into the State's special share of NIS 1.00 par value and 550,000,000 ordinary shares registered to bearer of NIS 1.00 par value each.

NOTE 19 - SHARE CAPITAL (Cont.)

e. Options and buy options

The following table presents the activity in options and purchase options:

	Options (Series 1)	**Buy options (Series A)**	**Buy options (Series B)**
		(in thousand units)	
Issued in June 2003	100,000	138,400	157,600
Exercised in 2003	-	(6,134)	-
Balance – December 31, 2003	100,000	132,266	157,600
Exercised in 2004	(2,416)	(132,266)	(74,256)
Balance – December 31, 2004	97,584	-	83,344
Exercised in 2005	(1,649)	-	(2,673)
		-	
Balance – December 31, 2005	95,935	-	80,671
Exercised in 2006	(1,003)	-	(2,249)
Balance – December 31, 2006	94,932	-	78,422
Exercised in 2007	(94,931)	-	(78,422)
Expired	(1)	-	-
Balance – December 31, 2007	-	-	-

The proceeds from the exercise of the purchase options (Series A and B) were received by the Government of Israel and deposited in the severance-pay fund of eligible employees.

f. The rights accompanying the special State share –

On May 18, 2003 the Company allotted the government a special, non-sellable, non-transferable share designed to protect the State's vital interests, in accordance with the following Government resolutions:

- Maintaining the Company as an Israeli company, subject to Israeli law;
- Maintaining the operating capability and the flight capability of carrying passengers, and cargo, to not fall below a minimum established level;
- Preventing any hostile interests from taking over the Company;
- Maintaining security and safety arrangements as determined by state bodies on behalf of the State.

In addition, on October 12, 2004, the Knesset's Finance Committee approved the issuance of an order under the Government Corporations Act requiring the Company to employ, at any time, Israeli crew members, and – in Israel – Israeli ground personnel, in a number not lower than that required for continuous and simultaneous operations in an emergency of all the aircraft fleets constituting the minimal flying capacity which the Company is required to maintain as stipulated by directives of the State's special share. As of the approval date of the financial statements, the provisions of this order did not obligate the Company to make any changes in its method of operations or composition of employees.

NOTE 19 - SHARE CAPITAL (Cont.)

g. Dividend-distribution policy -

In December 2005, the Company's Board of Directors adopted a dividend-distribution policy, whereby the Company would strive to distribute dividends to its shareholders, as from year 2006 and henceforth, 20%-40% of its after-tax annual net earnings for the preceding year, resulting from the Company's ordinary activities, excluding one-time profits not generated by operating activities and capital gains.

Implementation of this policy is subject to any relevant law provisions as well as the assessment of the Company's Board of Directors of the Company's ability to meet its present as well as forecasted liabilities and taking into account its liquidity, and present as well as future business plans and activities. The adoption of this policy does not diminish the authority of the Board of Directors of the Company to decide upon a change, amendment and/or abolition of the currently established dividend policy and/or to approve any additional distributions that comply with the law and/or to decide on a reduction of actual distributions or to preclude them altogether should it be warranted by changes from time to time in the Company's liquidity, operations and conditions.

On November 20, 2007, the Company's board of directors resolved to update the dividend distribution policy. Pursuant to the new dividend policy, the Company will distribute a dividend from time to time, at the discretion of the Board of Directors and subject to the Company's needs.

H. Dividend distribution

1. On October 7, 2007, the Company's Board of Directors resolved to distribute a dividend totaling NIS 0.075 per ordinary share, NIS 1 par value. The dividend was actually distributed on October 29, 2007. The total dividend amount (based on the exchange rate on that date) was $9,313 thousand.

2. On December 30, 2007, the Company's Board of Directors resolved to distribute a dividend totaling NIS 0.023 per ordinary share, NIS 1 par value. The total dividend amount (based on the exchange rate on that date) was $3,009 thousand. The dividend was actually distributed on January 21, 2008.

NOTE 19 - SHARE CAPITAL (Cont.)

i. Executive option plan

1. On February 26, 2006, the Board of Directors of the Company resolved to adopt an option plan for employees and executives of the Company (hereafter: the 2006 options plan). On that date, the Board of Directors of the Company gave its approval that the quantity of options which would serve as a pool for allotment under the plan would stand at 17,092,129 options, exercisable into 17,092,129 ordinary shares of the Company with par value of NIS 1 each, subject to adjustments. The Board of Directors is permitted, from time to time, to add to this quantity of options. At the same time, the Company's Board of Directors approved an allotment of 17,092,129 options to approximately 50 offerees, of which approximately 10 were senior executives of the Company and approximately 40 other executives of the Company. The allotment of the options to the Company's executives was also ratified by the Audit Committee of the Company on February 26, 2006. The allotment of the options was conditional upon the approval of the General Meeting of the Company for the increase in the Company's registered capital. Such approval was obtained on March 23, 2006 and, on the same day, the allotment was executed.

   The options will vest and become exercisable in equal parts over a 4-year period, beginning from January 1, 2007 (one quarter of the options will vest each year), conditional upon the offeree being employed by the Company, or rendering services to the Company, on the vesting date. All options granted but not exercised will expire and be cancelled at the end of 3 years from the date that each option became vested.

   The theoretical exercise price of one option into one share will be NIS 2.9733. The exercise price is the theoretical price not paid by the employee. In the event that the option is exercised, the employee will be eligible for shares in a number equivalent to the difference between the price of the underlying share (the closing price on the Tel-Aviv Stock Exchange of one ordinary share of the Company at the end of the trading day on which the Company received the instruction to exercise) and the theoretical exercise price, multiplied by the number of options in his possession, divided by the price of the underlying shares.

   The theoretical exercise price is subject to customary adjustments in the event of dividend distributions and changes in composition of the Company's capital. The share price for the purpose of the computation is the Company's share price at the close of trading on March 23, 2006 (NIS 3.837). The exercise price is 85% of the share price on February 26, 2006 – NIS 2.973.

2. On May 23, 2006, the Board of Directors of the Company resolved to increase the quantity of options in the options pool for allotment pursuant to the options plan for compensating Company executives and other employees by another 3,000,000 options. Such options will not be marketable and they will be exercisable into up to 3,000,000 ordinary shares of the Company with par value of NIS 1.

   The Board of Directors appointed the Human Resources and Appointments Committee to manage the options program and authorized the Committee to allot these options to Company executives, in accordance with the criteria stipulated by the Board of Directors.

NOTE 19 - SHARE CAPITAL (Cont.)

i. Executive option plan (cont.)

2. (cont.)

The theoretical exercise price of each option (as explained in Par. 1 above) will be 85% of the average closing price on the Tel-Aviv Stock Exchange of one ordinary share of the Company during the 30 trading days that preceded the decision of the manager of the program to make an allotment to each offeree, except for an offeree who served in the position of vice-president or division head in the Company on March 23, 2006, and who had not received options according to the allotment decision during the month of March 2006, as to which the theoretical exercise price was set at NIS 2.9733.

After the Human Resources and Appointments Committee decided on December 27, 2006 to allot options, 3,072,536 options were allotted on December 31, 2006 to 9 senior employees.

The options were divided into four equal installments which will vest over 3.5 years as follows: one quarter will vest on June 30 of each one of the years 2007 through 2010.
The theoretical exercise price of one option into one share will be NIS 1.8894, subject to the adjustments made for dividend distributions and changes in the composition of the Company's capital.

The share price for the purpose of the computation is the price of the Company's share at the close of trading on December 31, 2006 (NIS 2.08). The exercise price is 85% of the average price during the 30 trading days that preceded the Board of Directors' resolution of December 27, 2006, i.e. NIS 1.89.

3. On November 20, 2007, the Company’s board of directors resolved to publish an additional outline for the purpose of allotting options that are located in the options pool available for allotment, in accordance with the option plan for compensation of executives and other employees of the Company, as discussed in Par. i.1 and i.2 above, the balance of which as at such date is 3,382,843 options. The options will be exercisable for up to 3,382,843 ordinary shares, NIS 1 par value of the Company.

The board of directors approved the appointment of a Human Resources and Appointments Committee to continue serving as the option plan administrator, and empowered the committee to allot the above options to the Company’s managers, in accordance with the criteria provided by the Board of Directors.

The theoretical exercise price of each option (as explained in Par. 1) will be 85% of the average closing price of an ordinary share of the Company on the Tel Aviv Stock Exchange during the 30 trading days that preceded the decision of the plan administrator for an allotment to each offeree i.e. NIS 2.01.

The options will be distributed in four equal installments that will vest as follows: one-quarter will vest on July 1 of each of the years 2008 through 2011, inclusive.

Within this framework, on December 26, 2007, 2,195,852 options were allotted to six additional executives.

NOTE 19 - SHARE CAPITAL (Cont.)

i. Executive option plan (cont.)

4. None of the options in the three plans will be registered for trading on the stock exchange, although the underlying shares will be registered for trading on the stock exchange.

   The options will be allotted to a trustee in conformity with the capital gains alternative under Section 102 of the Income Tax Ordinance.

5. According to the provisions of Accounting Standard No.24 (Stock-Based Payment) of the Israeli Accounting Standards Board, the Company will record expenses pertaining to the options grant based on their economic value. The computation is made on the date of the grant, for each batch separately, based on the Black & Scholes model. The expense will be recorded over the vesting period of each batch, with the extent of the expense being a function of the quantity of options granted and the economic value of each option.

   The option's value will be computed based on the plan's terms and subject to the following assumptions:

   - The expected life for the exercise of each installment has been computed as the average of the vesting period of each installment and the expiration date.
   - The standard deviation has been computed based on the daily yield of the price of the share on the stock exchange during a period equaling the expected period for exercise of each batch (as outlined above). The maximum standard deviation taken from the date of issuance of the Company for trading (while neutralizing the first trading day) for batches whose expected period for exercise is longer than the period during which the Company's shares are traded on the stock exchange.
   - Discount rate–the rate of yield of unlinked debentures ("Shahar") which conforms to the expected period of exercise of each batch.
   - The computation of the value of the benefit did not take into account the retirement of employees before the end of the vesting period.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 19 - SHARE CAPITAL (Cont.)

i. Executive option plan (cont.)

5. (cont.)
Presented below is a summary of the parameters used in the model:

	Company		
	Plan A	**Plan B**	**Plan C**
Share price in NIS	3.84	2.08	2.34
Exercise price in NIS	2.97	1.89	2.01
Expected fluctuation (in %)	27.95-36.65	32.94-36.84	32.57-42.77
Life of options (in years)	2.11-5.11	2-5	2-5
Risk-free interest rate (in %)	4.80-6.45	4.96-5.35	4.58-5.18
Average option value according to B&S (in NIS)	1.75	0.75	0.90
Expense recorded in year 2007 in NIS	6,484,670	1,244,948	-
Expense recorded in 2007 in dollar thousands	1,579	303	-
Projected expense in 2008 in NIS	4,163,754	637,818	1,065,440
Projected expense in 2009 in NIS	1,845,507	332,525	536,926
Projected expense in 2010 in NIS	-	102,228	285,845
Projected expense in 2011 in NIS	-	-	91,588
	6,009,261	1,072,570	1,979,798

	Number of options		
	Plan A	**Plan B**	**Plan C**
Outstanding as of January 1, 2007	14,892,696	3,072,536	2,195,852
Waived	(1,255,946)	-	-
Outstanding as of December 31, 2007	13,636,750	3,072,536	2,195,852
Exercisable as of December 31, 2007	3,409,188	768,134	-

NOTE 20 - FINANCIAL INSTRUMENTS

a. Risk management goals and policies

The Company's operations expose it to risks connected with various financial instruments, principally: market risks (including currency risk, credit risk and liquidity risk) and cash flow risk due to interest rates. The overall risk management program focuses on actions intended to reduce the possible negative effects on the Company's financial performance to a minimum. The Company uses derivative financial instruments to hedge certain exposures to risks.

The Company has a Market Risk Management Committee headed by the Chairman of the Financial, Budgetary and Balance Sheet Committee, which has the responsibility for determining the policies to cover existing exposures. The CFO is responsible for execution of the policies and to report to the Market Risk Management Committee.

Below is information regarding risks connected to financial instruments to which the Company is exposed:

1. Market risks:

Price risk

The Risk Management Committee determines the extent of hedging future consumption of jet fuel. The significance of the financial hedging of jet fuel prices to assure the price range for purchasing jet fuel. In the event of a decrease in jet fuel prices which are assured past the range, the Company pays the difference. In the case of an increase in jet fuel prices, the Company receives the difference from the insuring entity (mostly foreign banks).

The goal of hedging jet fuel prices is to protect against the Company's exposure to changes in global jet fuel prices.

Accordingly, the hedging policies are: hedging jet fuel quantities up to 24 months ahead, so that for each quarter in that period, a minimum rate for hedging is determined for the entire forecasted consumption, and a maximum rate for hedging the entire forecasted consumption in a graduated and decreasing manner. Accordingly, the maximum hedging rate as of the beginning of the year 2008 was 80% and the minimum hedging rate as of the end of the year 2009 is 20%.

The Company has exposure due to a change in the fair value of these financial instruments as a result of changes in their market prices.

Currency risk

Most of the Company's revenues and expenses are in foreign currency (mainly the dollar), other than a number of expenses in NIS, primarily most salary expenses which are paid in Israel in NIS. Accordingly, a change in the dollar/shekel rate affects the Company's NIS expenses. In addition, in the case of a devaluation of the Euro in relation to the dollar, the excess of receipts over payments in Euro reduces the Company's revenues.

The Company also has balance sheet exposure to a devaluation of the dollar vis-à-vis the NIS due to the excess of financial liabilities over financial assets denominated in a currency other than the dollar (mostly, the NIS).

From time to time, the Company examines the need to invest in derivative financial instruments to reduce exposure to currency risks. It is the Company's policy for the dollar/shekel exchange rate to hedge half of the Company's shekel expenses for a period of up to one year forward. When it holds a derivative financial instrument, the Company is exposed to changes in the fair value of these financial instruments resulting from changes in their market value.

NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)

a. Risk management goals and policies (cont.)

1. Market risks (cont.):

Fair value risk due to interest rates

The Group companies have investments in financial instruments bearing fixed interest, and therefore, there is exposure to changes in the fair value of these financial instruments as the result of changes in the interest rate.

Since nearly all of the Company's loans are at variable interest, the Company has almost no exposure to changes in the fair value of financial liabilities, such as due to a change in the market interest rate.

The Company's policy regarding interest is approximately half of the Company's credit portfolio is at variable interest and about half is protected by means of financial instruments that convert variable interest into fixed interest over a period of 5 years. For this purpose, the Company carries out a number of financial transactions.
The Company is exposed due to changes in the fair value of these financial instruments as a result of changes in the interest rate.

2. Credit risk:

a. The Company and its subsidiaries have cash, cash equivalents and long and short-term investments deposited mainly with large, highly rated financial institutions. The Company and its subsidiaries do not anticipate any losses resulting from credit risk.

b. Most of the revenues earned by the Company and its subsidiaries are derived from a large number of customers (mainly travel and cargo agents), characterized by their dispersal throughout several countries. Exposure to risk from the extension of credit to customers is limited because of their relatively large number and dispersal, as mentioned above. In Israel, there is insurance on credit (limited in amount) granted to travel and cargo agents. Overseas agents are covered by collateral to the extent that it is accepted in that country. The Company regularly examines customer compliance with credit terms and includes in its financial statements an appropriate allowance for doubtful accounts.

3. Liquidity risk:

The Company has no difficulty in obtaining credit in order to meet its obligations that relate to financial liabilities and long-term loans. Also, the Company has no liquidity risk which could arise as a result of its inability to quickly sell investments in financial assets at a consideration that approximates their fair value.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)

a. Risk management goals and policies (cont.)

4. Cash flow risk due to interest rates

Most of the long-term loans of the Company are at variable interest. The loans, which bear variable interest rates, expose the Company to cash flow risk due to changes in interest rates. As protection and in order to reduce the Company's exposure to future changes in the interest rate, the Company entered into a number of agreements with banks in Israel for hedging transactions to exchange the Libor variable interest rate component on the Company's loans with a fixed rate component, running parallel to the amortization schedules for these loans.

In one agreement signed with two banks in Israel, the Libor was fixed for a five-year period, commencing in January 2004 with respect to an opening principal amount of approximately $ 270 million, at graduated interest rates, which declines in accordance with the loan amortization schedule. The agreement was extended by an additional year, until January 27, 2010.

In the other agreement signed with a bank in Israel at a premium, the Libor rate was fixed for five years, starting September 2004, with respect to an opening principal amount of approximately $87 million, at graduated interest rates, which declines in accordance with the repayment schedule of the loan.

The above financial instruments are not recognized as a hedge for accounting purposes. The fair value of these instruments amounted to $ 954 thousand as of December 31, 2007 ($2,904 thousand as of December 31, 2006) (see Note 2q).

In two additional agreements recognized for accounting purposes as hedging transactions, executed with banks in Israel, the Libor variable interest rate was exchanged for a maximum fixed interest rate which hedges against a rise in the variable interest rate beyond that rate while establishing a minimum rate, so that should the variable interest rate decline below the minimum level the Company would waive this gain. These transactions were carried out as follows: the first for an opening principal amount of approximately $ 244 million, gradually declining based on a loan amortization schedule over a two-year period starting January 27, 2006; and the second, in accordance with a hedging policy for five years forward, on the balance of that same loan, the balance of which will stand at an opening principal amount of approximately $ 183 million, gradually declining based on a loan amortization schedule over a two-year year period starting January 27, 2010.

In two additional agreements recognized for accounting purposes as hedging transactions, executed with banks in Israel, the Libor variable interest rate was exchanged for a fixed rate. These transactions were carried out as follows: the first with respect to an opening principal amount of approximately $ 138 million, gradually declining based on a loan amortization schedule over a period of five years and three months, gradually declining based on a loan amortization schedule over a period of five years and three months starting July 18, 2005; and the second, on an opening principal amount of approximately $ 40 million, gradually declining based on a loan amortization schedule over a five-and-a-half year period starting October 17, 2005.

NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)

a. Risk management goals and policies (cont.)

5. The table below presents the book value of groups of financial instruments that are exposed to fair value risk and/or cash flow risk due to interest rates, in accordance with their contractual repayment dates:

		As of December 31, 2007							
		Consolidated							
	Note	Up to one year	Second year	Third year	Fourth year	Fifth year	Sixth year & after	Total	Effective interest rate-%
Financial assets									
Cash and cash equivalents (*)		86,670	-	-	-	-	-	86,670	4.9-5.4
Short-term investments (*)	3	180,633	-	-	-	-	-	180,633	5.1
Long-term bank deposits (**)	.א.7	-	-	-	-	-	2,207	2,207	2.4-2.8
Financial liabilities									
Short-term bank credit (**)	11	(3,619)	-	-	-	-	-	(3,619)	6.0-8.0
Dollar bank loans (**)	14	(62,313)	(64,396)	(64,625)	(132,685)	(125,611)	(335,885)	(785,515)	4.7-5.6
Obligations for capital leases (*)	16	(384)	(423)	-	-	-	-	(807)	4.9
		200,987	(64,819)	(64,625)	(132,685)	(125,611)	(333,678)	(520,431)	

		As of December 31, 2006							
		Consolidated							
	Note	Up to one year	Second year	Third year	Fourth year	Fifth year	Sixth year & after	Total	Effective interest rate-%
Financial assets									
Cash and cash equivalents (*)		146,158	-	-	-	-	-	146,158	4.9-5.4
Short-term investments (*)	3	4,682	-	-	-	-	-	4,682	5.3
Long-term bank deposits (**)	7A	-	-	-	-	-	1,836	1,836	2.4-3
Financial liabilities									
Short-term bank credit (**)	11	(4,287)	-	-	-	-	-	(4,287)	5.3-6.3
Dollar bank loans (**)	14	(98,505)	(52,542)	(54,040)	(53,684)	(121,127)	(287,464)	(667,362)	5.4-6.5
Other dollar loan (*)	16	(1,992)	-	-	-	-	-	(1,992)	4
Obligations for capital leases (*)	16	(316)	(326)	(404)	-	-	-	(1,046)	4.9-5.6
		45,740	(52,868)	(54,444)	(53,684)	(121,127)	(285,628)	(522,011)	

(*) These assets/liabilities carry a fixed interest rate.
(**) These assets/liabilities carry a variable interest rate.

NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)

b. Fair value

1. Fair value of financial instruments

The financial instruments of the Company consist primarily of cash and cash equivalents, deposits, trade accounts receivable, other current assets, short-term bank borrowings, trade accounts payable, other current liabilities and long-term financial obligations.
Due to the nature of the financial instruments, their fair value is usually identical to the value at which they are stated in the financial statements.

The fair value of the long-term loans is ordinarily based on the present value of future payments in accordance with the interest rates payable by the Company, as of the balance-sheet date, on loans with similar terms, and it is not materially different from their financial statement value.

The fair value of derivative financial instruments is determined according to quotes from financial entities with which those transactions were executed.

The fair value of marketable financial instruments was calculated according to quoted closing prices as of December 31, 2007.

The fair value of non-marketable financial instruments is estimated by using accepted costing models such as present value of future cash flows that are discounted at interest rates which, in the Company's estimation, reflect the risk level incorporated in the financial instrument.
The estimate of fair value is computed by means of an assessment of future cash flows and determination of a discount interest rate on the basis of rates proximate to the balance sheet date, among other things, and based on assumptions of Company management, and, therefore, for most of the financial instruments, the estimate of fair value is not necessarily an indication of realization value of the financial instrument as of the balance sheet date. Fair value was estimated, as aforementioned, according to discount rates close to the balance sheet date and did not take into account the variability of interest rates from the date of the calculation through the date that this report was issued. Under the assumption of other discount rates, fair values would be obtained which could be materially different from those estimated by the Company, principally in relation to financial instruments with fixed interest. In addition, in determining fair value, commissions which might be payable at the time the instrument is redeemed were not brought into account. The difference between the balances in the December 31, 2007 balance sheet and the fair value balances as estimated by the Company will not necessarily be realized, especially as regards a financial instrument held to maturity.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)

b. Fair value (cont.)

1. Fair value of financial instruments

The following table itemizes the book value and the fair value of groups of financial instruments that are presented in the financial statements at other than fair value:

	As of December 31, 2007		As of December 31, 2006	
	Book value	Fair value	Book value	Fair value
Financial assets	(in thousand US dollars)		(in thousand US dollars)	
Derivative financial instruments to hedge interest (recognized for accounting purposes as hedging instruments) (1)	-	-	-	6,238
Derivative financial instruments to hedge jet fuel (recognized for accounting purposes as hedging instruments) (1)	-	29,450	-	-
Financial liabilities				
Long-term liabilities at fixed interest (2)	(807)	(798)	(3,038)	(3,003)
Derivative financial instruments to hedge jet fuel (recognized for accounting purposes as hedging instruments) (1)	-	-	-	(4,844)
Derivative financial instruments to hedge interest (recognized for accounting purposes as hedging instruments) (1)	-	(2,369)	-	-
Total	(807)	26,283	(3,038)	(1,609)

(1) Fair value is based upon quoted prices in an active market as of the balance sheet date.

(2) The fair value of long-term loans bearing fixed interest is based on the calculation of the present value of cash flows according to the accepted rate of interest for a similar loan with similar characteristics as of December 31, 2007: 4.94% (6.3% as of December 31, 2006)

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)

c. Linkage balance sheet

1. Linked balances – consolidated balance sheet –

	December 31, 2007					
	In, or linked to, the U.S. dollar	In NIS	In, or linked to, the euro	In, or linked to, other foreign currency	Non-monetary items	Total
	(in thousand US dollars)					
Assets						
Cash and cash equivalents	63,447	18,020	842	4,361	-	86,670
Short-term investments	172,000	8,633	-	-	-	180,633
Trade accounts receivable	99,917	422	20,653	22,625	-	143,617
Other current assets	6,291	7,561	4,235	1,844	32,022	51,953
Deferred taxes	-	-	-	-	19,569	19,569
Inventory	-	-	-	-	15,981	15,981
Long-term bank deposits and investment in another company	1,715	2,207	-	-	-	3,922
Investees	1,228	-	-	-	1,040	2,268
Fixed assets	-	-	-	-	1,286,421	1,286,421
Other assets	-	-	-	-	3,719	3,719
	344,598	36,843	25,730	28,830	1,358,752	1,794,753
Liabilities						
Short-term bank borrowings and current maturities	(65,017)	(292)	(1,007)	-	-	(66,316)
Trade accounts payable	(98,059)	(26,902)	(27,645)	(14,814)	-	(167,420)
Other current liabilities	(94,783)	(118,398)	(3,492)	(2,418)	(188,751)	(407,842)
Dividend proposed for payment	-	(3,009)	-	-	-	(3,009)
Long-term loans from financial institutions	(713,793)	-	-	-	-	(713,793)
Obligations for termination of employee-employer relationships, net	(14,857)	(45,704)	(6,536)	(3,839)	-	(70,936)
Deferred taxes	-	-	-	-	(72,510)	(72,510)
Other long-term liabilities	(423)	-	-	-	-	(423)
Shareholders' equity	-	-	-	-	(292,504)	(292,054)
	(986,932)	(194,305)	(38,680)	(21,071)	(553,765)	(1,794,753)
Monetary assets, net of monetary liabilities (monetary liabilities net of monetary assets)	(642,334)	(157,462)	(12,950)	7,759	804,987	-

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)

c. Linkage balance sheet

2. Linked balances – Company balance sheet –

	December 31, 2007					
	In, or linked to, the U.S. dollar	In NIS	In, or linked to, the euro	In, or linked to, other foreign currency	Non-monetary items	Total
	(in thousand US dollars)					
Assets						
Cash and cash equivalents	59,459	17,257	842	3,169	-	80,727
Short-term investments	172,000	7,435	-	-	-	179,435
Trade accounts receivable	97,642	-	20,199	22,435	-	140,276
Other current assets	10,977	7,140	1,162	2,355	31,781	53,415
Deferred taxes	-	-	-	-	19,169	19,169
Inventory	-	-	-	-	15,379	15,379
Long-term bank deposits and investment in another company	1,715	2,207	-	-	-	3,922
Investees	1,639	-	-	-	9,805	11,444
Fixed assets	-	-	-	-	1,284,371	1,284,371
Other assets	-	-	-	-	3,719	3,719
	343,432	34,039	22,203	27,959	1,364,224	1,791,857
Liabilities						
Short-term bank borrowings and current maturities	(65,017)	(292)	(1,007)	-	-	(66,316)
Trade accounts payable	(102,317)	(23,909)	(27,645)	(13,607)	-	(167,478)
Other current liabilities	(96,921)	(113,475)	(3,492)	(3,213)	(187,407)	(404,508)
Dividend proposed for payment	-	(3,009)	-	-	-	(3,009)
Long-term loans from financial institutions	(713,793)	-	-	-	-	(713,793)
Obligations for termination of employee-employer relationships, net	(14,985)	(45,838)	(6,536)	(3,839)	-	(71,198)
Deferred taxes	-	-	-	-	(72,796)	(72,796)
Other long-term liabilities	(255)	-	-	-	-	(255)
Shareholders' equity	-	-	-	-	(292,504)	(292,504)
	(993,288)	(186,523)	(38,680)	(20,659)	(552,707)	(1,791,857)
Monetary assets, net of monetary liabilities (monetary liabilities net of monetary assets)	(649,856)	(152,484)	(16,477)	7,300	811,517	-

NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)

c. Linkage balance sheet

3. Linked balances – consolidated balance sheet –

	December 31, 2006					
	In, or linked to, the U.S. dollars	In NIS	In, or linked to, the euro	In, or linked to, other foreign currency	Non-monetary items	Total
	(in thousand US dollars)					
Assets						
Cash and cash equivalents	127,167	15,011	530	3,450	-	146,158
Short-term investments	4,000	682	-	-	-	4,682
Trade accounts receivable	102,052	109	11,872	18,511	-	132,544
Other current assets	13,431	5,227	857	2,867	24,960	47,342
Deferred taxes	-	-	-	-	30,645	30,645
Inventory	-	-	-	-	17,190	17,190
Long-term bank deposits	-	1,836	-	-	-	1,836
Investment in another company	1,829	-	-	-	-	1,829
Investees	1,228	-	-	-	1,052	2,280
Fixed assets	-	-	-	-	*1,176,528	1,176,528
Other assets	-	-	-	-	3,455	3,455
	249,707	22,865	13,259	24,828	1,253,830	1,564,489
Liabilities						
Short-term bank borrowings and current maturities	(104,359)	(126)	(595)	(20)	-	(105,100)
Trade accounts payable	(86,522)	(22,964)	(23,126)	(12,378)	-	(144,990)
Other current liabilities	(88,630)	(96,361)	(2,830)	(2,325)	(142,345)	(332,691)
Long-term loans from financial institutions	(566,104)	-	-	-	-	(566,104)
Obligations for termination of employee-employer relationships, net	(19,783)	(96,010)	(6,420)	(3,958)	-	(126,171)
Deferred taxes	-	-	-	-	*(74,603)	(74,603)
Other long-term liabilities	(730)	-	-	-	-	(730)
Shareholders' equity	-	-	-	-	*(214,100)	(214,100)
	(866,328)	(215,461)	(32,971)	(18,681)	(431,048)	(1,564,489)
Monetary assets, net of monetary liabilities (monetary liabilities net of monetary assets)	(616,621)	(192,596)	(19,712)	6,147	822,782	-

* Restated – see Note 2.z.

NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)

c. Linkage balance sheet

4. Linked balances – Company balance sheet –

	December 31, 2006					
	In, or linked to, the U.S. dollar	In NIS	In, or linked to, the Euro	In, or linked to, other foreign currency	Non-monetary items	Total
	(in thousand US dollars)					
Assets						
Cash and cash equivalents	122,070	14,213	530	2,595	-	139,408
Short-term investments	4,000	-	-	-	-	4,000
Trade accounts receivable	98,701	40	11,872	18,387	-	129,000
Other current assets	15,612	5,064	857	3,177	24,684	49,394
Deferred taxes	-	-	-	-	30,171	30,171
Inventory	-	-	-	-	16,464	16,464
Long-term bank deposits	-	1,836	-	-	-	1,836
Investment in another company	1,879	-	-	-	-	1,829
Investees	1,228	-	-	-	10,047	11,275
Fixed assets	-	-	-	-	*1,174,355	1,174,355
Other assets	-	-	-	-	3,455	3,455
	243,440	21,153	13,259	24,159	1,259,176	1,561,187
Liabilities						
Short-term bank borrowings and current maturities	(104,359)	(126)	(595)	(20)	-	(105,100)
Trade accounts payable	(89,333)	(21,229)	(23,126)	(11,753)	-	(145,441)
Other current liabilities	(87,602)	(94,226)	(2,830)	(2,471)	(141,853)	(328,982)
Long-term loans from financial institutions	(566,104)	-	-	-	-	(566,104)
Obligations for termination of employee-employer relationships, net	(19,909)	(96,125)	(6,420)	(3,958)	-	(126,412)
Deferred taxes	-	-	-	-	(74,506)	(74,506)
Other long-term liabilities	(542)	-	-	-	-	(542)
Shareholders' equity	-	-	-	-	*(214,100)	(214,100)
	(867,849)	(211,706)	(32,971)	(18,202)	(430,459)	(1,561,187)
Monetary assets, net of monetary liabilities (monetary liabilities net of monetary assets)	(624,409)	(190,553)	(19,712)	5,957	828,717	-

* Restated – see Note 2.z.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 21 - STATEMENT-OF-OPERATIONS DETAILS

a. Operating revenues

Composition -

	Year ended December 31,		
	2 0 0 7	2 0 06	2 0 0 5
	(in thousand US dollars)		
Consolidated:			
Passengers	1,586,610	1,317,259	1,292,941
Less: discounts	(39,105)	(39,513)	(33,168)
	1,547,505	1,277,746	1,259,773
Cargo and mail	322,555	331,606	309,120
	1,870,060	1,609,352	1,568,893
Aircraft leasing	1,900	5,073	5,154
Other	60,490	51,021	45,422
	1,932,450	1,665,446	1,619,469
Company:			
Passengers	1,530,042	1,275,038	1,253,704
Less: discounts	(39,105)	(39,513)	(33,168)
	1,490,937	1,235,525	1,220,536
Cargo and mail	322,555	331,606	309,120
	1,813,492	1,567,131	1,529,656
Aircraft leasing	47,264	40,307	37,797
Other	57,129	46,935	40,994
	1,917,885	1,654,373	1,608,447

NOTE 21 - STATEMENT-OF-OPERATIONS DETAILS (Cont.)

b. Operating expenses

Composition -	Year ended December 31 2007	2006	2005
	(in thousand US dollars)		
Consolidated:			
Wages and social benefits	281,714	262,599	229,278
Fuel	556,274	465,912	388,028
Airport fees and services	175,504	169,717	175,009
Maintenance of aircraft , flight and ground equipment	90,779	*83,024	*67,438
Air navigation and flight communication	98,855	89,851	85,872
Depreciation	109,983	*111,084	*113,106
Insurance	8,421	9,909	11,680
Aircraft leasing fees	41,369	38,540	22,729
Meals and supplies	41,423	39,733	38,217
Air-crew expenses	48,166	45,811	40,755
Participation in security expenses (see 21c)	39,413	40,002	39,027
Cost of duty-free products	11,175	8,840	8,091
Other expenses	36,582	29,137	26,340
	1,539,658	1,394,159	1,245,570
Company			
Wages and social benefits	270,743	252,361	219,057
Fuel	556,274	465,912	388,028
Airport fees and services	175,504	169,717	175,009
Maintenance of aircraft , flight and ground equipment	90,779	*83,024	*67,438
Air navigation and flight communication	98,855	89,851	85,872
Depreciation	109,688	*110,789	*112,733
Insurance	8,421	9,909	11,680
Aircraft leasing fees	41,369	38,540	22,729
Meals and supplies	56,586	54,298	52,673
Air-crew expenses	48,166	45,811	40,755
Participation in security expenses (see 21c)	39,413	40,002	39,027
Cost of duty-free products	11,175	8,840	8,091
Other expenses	22,988	19,947	18,144
	1,529,961	1,389,001	1,241,236

* Restated – see Note 2.z.

c. Security expenses

The Company is obliged to maintain security arrangements which are determined by a State agency, and the Company has no control over these expenses.

The State bears part of the Company's government expenses incurred in protecting Company passengers, aircraft, employees, offices and other installations against acts of terror.
Following a government resolution, the Company’s participation rate in these expenses decreased on January 1, 2003 to 50%.
In addition to these expenses, the Company bears other, indirect security costs which also cause a loss of revenue due to in-flight security personnel. These additional costs are included in various operating items in the statement of operations.
Regarding the change in the rate of the State's participation in security expenses as a result of a government decision made subsequent to the balance sheet date, see Note 26.1.

NOTE 21 - SUPPLEMENTAL STATEMENT OF OPERATIONS DETAILS (Cont.)

d. Selling expenses

Composition:

	Year ended December 31,		
	2007	2006	2005
	(in thousand US dollars)		
Consolidated:			
Commissions to agents	154,940	116,232	125,793
Wages and social benefits	44,276	45,700	45,862
Advertising and public relations	10,219	9,907	9,734
Others	21,202	15,966	17,202
	230,637	187,805	198,591
Company:			
Commissions to agents	154,940	116,232	125,714
Wages and social benefits	44,276	45,700	45,862
Advertising and public relations	9,844	9,473	9,505
Others	21,202	15,966	16,864
	230,262	187,371	197,945

e. General and administrative expenses

Composition -

Consolidated:			
Wages and social benefits	59,724	60,626	59,192
Professional consultation	6,234	4,807	4,403
Telecommunications	4,969	5,062	5,331
Office rental and maintenance	9,696	9,445	7,200
Insurance	1,931	2,113	2,252
Other expenses	8,227	9,899	10,380
	90,781	91,952	88,758
Company:			
Wages and social benefits	55,686	56,366	55,234
Professional consultation	5,883	4,446	4,227
Telecommunications	4,904	4,974	5,291
Office rental and maintenance	9,309	9,027	6,957
Insurance	1,730	1,929	2,088
Other expenses	7,801	9,593	9,552
	85,313	86,335	83,349

NOTE 21 - SUPPLEMENTAL STATEMENT-OF-OPERATIONS DETAILS (Cont.)

f. Financing expenses (income), net

Composition -	Year ended December 31, 2007	2006	2005
	(in thousand US dollars)		
Consolidated:			
Financing expenses on long-term loans	45,100	38,673	31,069
Interest income on short-term deposits	(10,826)	(6,872)	(6,024)
Other financing expenses (income), net (including erosion of monetary items, net)	(881)	(2,309)	(4,439)
	33,393	29,492	20,606
Company:			
Financing expenses on long-term loans	45,100	38,673	31,069
Interest income on short-term deposits	(10,826)	(6,872)	(6,024)
Other financing expenses (income), net (including erosion of monetary items, net)	(431)	(2,069)	(4,318)
	33,843	29,732	20,727

g. Other expenses (income), net

1. Composition:

	Note	Year ended December 31, 2007	2006	2005
		(in thousand US dollars)		
Consolidated:				
Expenses pertaining to retirement plans, net (see Note 15b.12)	(2)	12,094	4,405	13,510
Damages received	(3)	(14,267)	-	-
Gain from realizing investments in investees	(4)	-	-	(8,297)
Gain from disposition of fixed assets	(5)	(245)	*(1,641)	(590)
Other capital gains, net		(5)	-	(104)
		(2,423)	2,764	4,519
Company:				
Expenses pertaining to retirement plans, net (see Note 15b.13)	(2)	12,094	4,405	13,510
Damages received	(3)	(14,267)	-	-
Gain from realizing investment in investees	(4)	-	-	(8,297)
Gain from disposition of fixed assets	(5)	(245)	* (1,659)	(585)
		(2,418)	2,746	4,628

* Restated – see Note 2.z.

NOTE 21 - SUPPLEMENTAL STATEMENT-OF-OPERATION DETAILS (Cont.)

g. Other expenses (income), net (cont.)

2. Expenses for retirement plans, net

The expenses for employee retirement plans during the reporting year mainly include the provision for two retirement plans for two additional groups of 22 and 28 employees (see Note 15.b.12.d), for which a provision was recorded totaling $7.3 million, as well as expenses for reappraisal of liabilities pertaining to early retirement programs following the revaluation of Israeli currency vis-à-vis the dollar.

The expenses for the employee retirement plans for the year ended December 31, 2006 derived mainly form the appreciation of the shekel against the dollar.

The expenses for employee retirement plans for the year ended December 31, 2005 mainly include expenses for two new retirement programs which jointly pertain to 100 employees, most of whom retired during the year 2006 and for which the Company recorded provisions totaling $ 16 million.

3. a. As a result of the discontinuation of operations of a company related to Boeing, with which the Company had an undertaking in the past to operate Internet systems on some of the Company's aircraft, the Company discontinued the providing of such service. In January 2007, an agreement was signed between the Company and Boeing, whereby the Company received damages from Boeing for its investments in the Internet system, and for the additional damages it sustained due to discontinuation of the system's operation. As a result of these damages, the Company recorded income in the reporting year of $4.4 million.

b. In July 2007, a clarification to an agreement between the Company and Boeing was signed, with respect to an overall accounting between the parties. Within this framework, there was agreement that the sum of $6.5 million of the cash flows, which were or are expected to be received by the Company from Boeing constitute damages for the loss of revenues sustained by the Company due to the discontinuation of two joint projects, including the project for broadband Internet in planes.

c. In March 2007, the Company signed an agreement with the British Aviation Authority, whereby a property that had been used in Heathrow Airport in London was vacated, and accordingly, it received early vacancy fees from the above Aviation Authority.
As a result of this agreement, the Company recorded net income (after taxes) of $3.4 million.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 21 - SUPPLEMENTAL STATEMENT-OF-OPERATION DETAILS (Cont.)

g. Other expenses (income), net (cont.)

4. Gain from realization of investments in investees -

a. In April 2005, the Company signed agreements for the sale of its entire holding in Maman - Cargo and Handling Terminals Ltd (hereafter: "Maman"), which constituted 26% of the issued share capital of Maman, to two other Israeli companies, for a price of $ 12.8 million.
Consequently, the Company recorded a pre-tax capital gain of approximately $ 8 million during 2005 (including $2 million derived from translation differences with respect to investees).

b. In November 2005, the Company concluded an agreement with another Israeli company for the sale of its entire holding in Unitel Tourism and Aviation Ltd. (“Unitel”), which constituted 13.7% of Unitel’s issued share capital, in exchange for approximately $ 856 thousand.
Consequently, the Company recorded a pre-tax capital gain of approximately $ 294 thousand during 2005.

5. In July 2006, the Company sold a 747-200 cargo aircraft which was owned by it. Consequently, the Company recorded a capital gain in 2006 of approximately $1.4 million.

h. Company's equity in earnings of investees, net

	Year ended December 31,		
Composition -	**2007**	**2006**	**2005**
	(in thousand US dollars)		
Consolidated:			
Maman	-	-	306
Other companies	332	417	327
	332	417	633
Company:			
Maman	-	-	306
Superstar	35	(417)	170
Tamam	(290)	207	108
Borenstein	26	162	281
Other companies	332	417	327
	103	369	1,192

NOTE 21 - SUPPLEMENTAL STATEMENT-OF-OPERATION DETAILS (Cont.)

i. Earnings per share

The calculation of basic and fully-diluted earnings per share allocated to the ordinary shareholders is based on the following data:

	Consolidated		
	Year ended December 31,		
	2007	2006	2005
	(in thousand US dollars)		
Earnings (loss) used to compute basic earnings per share:	31,735	(33,912)	48,998
Earnings (loss) used to compute fully-diluted earnings per share:	31,735	(33,912)	48,998
	(Thousand shares)		
Weighted average of number of ordinary shares used to compute basic earnings per share	476,289	400,680	399,633
Adjustments:			
Options	19,645	-	96,088
Weighted average of number of ordinary shares used to compute fully-diluted earnings per share	495,834	400,680	495,721
Weighted average of securities not included in the computation of fully-diluted earnings per share since they are anti-dilutive			
Options	6,021	95,039	-

NOTE 22 - INCOME TAXES

a. Tax laws applicable to the Group companies

According to the Adjustments Law and the Income Tax Regulations (Rules Concerning the Maintenance of Accounting Records of Companies in Foreign Investments and of Certain Partnerships and the Determination of their Taxable Income), 1986 ("the Dollar Regulations"), the results of the Company and some of its subsidiaries for tax purposes are measured on the basis of adjustment to the exchange rate of the U.S. dollar.

The Company's main subsidiaries operating in Israel are subject to the Income Tax Law (Inflationary Adjustments), 1985 ("the Adjustments Law"), which measures results in real terms on the basis of adjustment for changes in the CPI.

On February 26, 2008, the Knesset passed in the third reading the Income Tax Law (Inflationary Adjustments)(Amendment No. 20)(Limitation of Effective Period), 2008 ("the Amendment"), whereby the effective period of the Adjustments Law will end in the 2007 tax year, and as from the 2008 tax year, the provisions of the law will not apply, except for the transitional provisions, the purpose of which is to prevent distortions in the tax computations.

The Dollar Regulations will continue to apply to the Company even after the effective period of the Adjustments Law ends.

Some subsidiaries are assessed jointly with the Company. Foreign subsidiaries are subject to the tax laws applicable in the countries of residence.

The Company is deemed an industrial company under the Law for the Encouragement of Industry (Taxes), 1969 and, accordingly, is entitled to accelerated depreciation rates on aircraft and equipment as well as amortization of costs incurred in connection with the registration of shares for trading on a stock exchange.

Pursuant to the Income Tax Regulations - Depreciation, 1941, the Company is entitled to depreciate the cost of owned aircraft and spare engines at an annual rate of 30% and 40% of cost, respectively.

Most of the countries in which the Company operates representative offices are signatories to treaties or mutual arrangements for the prevention of double taxation, which exempt the Company from income taxes on their operations in these countries.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES (Cont.)

b. Effective tax rate

Reconciliation between the taxes computed on the pre-tax income at ordinary rates ("theoretical tax") and the provision included in the statement of operations is as follows:

	Year ended December 31,		
	2007	2006*	2005*
	(in thousand US dollars)		
Consolidated:			
Statutory tax rate (in %)	29%	31%	34%
Pre-tax income (loss) - per statement of operations	40,404	(40,726)	61,425
Theoretical tax	(11,717)	12,625	(20,885)
Change in tax burden in respect of:			
Differences in the computation of taxable income due to exchange rate differences	3,286	(6,018)	8,085
Non-deductible expenses and exempt income, net Tax (expenses) savings	(570)	(210)	(260)
	(9,001)	6,397	(13,060)
Company:			
Statutory tax rate (%)	29%	31%	34%
Pre-tax income - per statement of operations	40,924	(40,812)	60,562
Theoretical tax	(11,868)	12,652	(20,591)
Differences in the computation of taxable income due to exchange rate differences	3,146	(5,911)	8,090
Non-deductible expenses and exempt income, net Tax (expenses) savings	(570)	(210)	(255)
	(9,292)	6,531	(12,756)

(*) Restated – see Note 2.z.

c. On July 25, 2005, the Israeli Knesset passed, in second and third reading, the Law for Amending the Income Tax Ordinance (No.147) 2005 ("the Amendment"), according to which the 34% corporate-tax rate is to be reduced gradually to 31% for the 2006 tax-year, 29% for the 2007 tax year, 27% for the 2008 tax year, 26% for the 2009 tax year and to 25% for the 2010 tax year.

NOTE 22 - INCOME TAXES (Cont.)

d. Deferred income taxes

	Depreciation differences	Timing differences-expenses	Carry-forward losses	Total
	(in thousand US dollars)			
1. Consolidated:				
Balance – January 1, 2007*	(240,800)	52,044	144,798	(43,958)
Deferred income tax (expenses) savings	16,150	(6,900)	(18,233)	(8,983)
Balance – December 31, 2007	(224,650)	45,144	126,565	(52,941)
2. Company:				
Balance – January 1, 2007*	(240,800)	51,667	144,798	(44,335)
Deferred income tax expenses	16,150	(6,846)	(18,596)	(9,292)
Balance – December 31, 2007	(224,650)	44,821	126,202	(53,627)

3. Balance-sheet presentation:

	Consolidated		Company	
	December 31		December 31	
	2 0 0 7	2 0 0 6*	2 0 0 7	2 0 0 6*
	(in thousand US dollars)			
In current assets	19,569	30,645	19,169	30,171
In long-term liabilities	(72,510)	(74,603)	(72,796)	(74,506)
	(52,941)	(43,958)	(53,627)	(44,335)

e. Income tax expenses – composition – consolidated:

	Year ended December 31		
	2 0 0 7	2 0 0 6*	2 0 0 5*
	(in thousand US dollars)		
Current-tax expenses	18	113	381
Deferred tax expense (income)	8,983	(6,510)	2,679
Total tax expense (benefit)	9,001	(6,397)	13,060

f. Income tax expenses – composition – Company:

	Year ended December 31		
	2 0 0 7	2 0 0 6*	2 0 0 5*
	(in thousand US dollars)		
Deferred tax expense (income)	9,292	(6,531)	12,756
Total tax expense (benefit)	9,292	(6,531)	12,756

* Restated – see Note 2.z.

g. Final tax assessments

On May 26, 2003, the Company signed an agreement with the income tax authorities, according to which it received final tax assessments up to, and including, the 2002 tax year. Within this framework, it was established that the balance of the carryforward tax losses to the year 2003, after the waiver of government debt (explained in Note 9d.2 above) would amount to NIS 2,219 million (based on the exchange rate in effect on December 31, 2007-$ 577 million).

The balance of the Company's tax losses at the end of the 2007 tax-year (based on the Company's estimated tax return for the year 2007) amounted to approximately NIS 1,917 million.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 23 - RELATED AND INTERESTED PARTIES

a. Balance-sheet items pertaining to related and interested parties:

	Consolidated December 31,		Company December 31,	
	2007	2006	2007	2006
	(in thousand US dollars)			
Trade accounts receivable	99	-	99	-
The highest balance during the year	325	-	325	-
Other current assets	-	-	1,658	2,621
The highest balance during the year	-	-	4,782	6,428
Loans granted to investees	1,228	1,228	1,639	1,228
The highest balance during the year	1,228	1,554	1,639	2,192
Trade accounts payable	1,330	13,582	6,798	18,148
Other current liabilities	1,845	1,627	2,543	1,600
Bank loan	-	35,454	-	35,454

b. Transactions with related and interested parties:

	Consolidated Year ended December 31			Company Year ended December 31		
	2007	2006	2005	2007	2006	2005
	(in thousand US dollars)					
Operating income	39,076	72,572	97,221	93,633	121,160	145,885
Operating expenses	90,106	280,784	249,697	116,884	305,109	273,964
Selling expenses	12,317	10,965	13,192	12,317	10,965	13,192
G & A expenses	3,694	1,751	3,637	3,694	1,751	3,637
Financing expenses	816	2,113	1,654	939	2,154	1,696

NOTE 23 - RELATED AND INTERESTED PARTIES

c. Benefits to interested parties:

	2007		2006		2005	
	No. of people	(in thousand dollars)	No. of people	(in thousand dollars)	No. of people	(in thousand dollars)
Non-employed directors	9	49	9	66	9	68
Employed interested Party - CEO	1	2,734	1	770	(*) 2	2,570

d. The Government of Israel and government institutions

As of December 31, 2007, the Government owned only 1.13% of the Company's shares, and is no longer an interested party in the Company, although until June 5, 2007, the Israeli Government was an interested party in the Company. The information included in this note relating to transactions that were executed between the Group and the Israeli Government and government institutions are only for the period from January 1, 2007 to June 5, 2007 (the holdings of the Israeli Government as of December 31, 2006: 20.97%).

During the course of its business, the Company carries passengers and cargo for the State of Israel and its many agencies, including government ministries, companies that it owns, institutions and authorities. These transactions are carried out during the ordinary course of business activities under commercial terms, with each individual transaction, on its own, not being material from the Company's point of view. Concurrently, in the course of its business, the Company acquires services from the State of Israel and its agencies, including government ministries, companies that it owns, institutions, authorities and, in particular, services at BGA, and the payment of usage fees for a complex on which Company installations are located and where it performs aircraft repair and maintenance work, etc. The Company is also provided services by government corporations in the ordinary course of business (such as electricity, telecom, etc).

From the year 2005 and thereafter, in view of the amendment to the Securities Regulations (Preparation of Annual Financial Statements)(Amendment), 2005 (hereafter - "the Regulations"), we will provide a general description of the transactions, their nature and scope, in accordance with Regulation 64(3)(d)(2) to the Regulations:

Operating revenues includes revenues from sale of tickets to various government entities during the year 2007 (Company and consolidated) totaled approximately $12 million ($25.9 million in 2006 and about $25.6 million in 2005), revenues from carrying cargo for various government entities (Company and consolidated) totaled approximately $13.6 million (about $38.4 million for the year 2006 and $18.9 million for 2005) and revenues from rendering maintenance services (Company and consolidated) in 2007 totaling approximately $ 2.4 million (about $4 million in 2006 about $2.3 million for the year 2005).

Operating expenses during 2007 included those incurred by purchasing services from various government entities totaling approximately $ 50.2 million, consolidated, and $ 48.4 million, Company, (for the year 2006: approximately $127.3 million consolidated and $124.8 million, Company, for the year 2005: approximately $ 105.3 million, consolidated, and about $ 102.6 million, Company). Most of these expenses pertain to various fees and space rental from the AA, the government's participation in security expenses (see Note 21c) and engine maintenance and repairs carried out by a government corporation. Operating expenses also include those incurred with related parties, electricity, telecom, infrastructure for gasoline delivery and ground transportation through government corporations.

Financing expenses during 2007 include net financing expenses to a bank in which the Government of Israel is an interested party, totaling $0.9 million (in 2006: $2.2 million and in 2005: $1.7 million).

NOTE 23 - RELATED AND INTERESTED PARTIES

e. K'nafaim Holdings Ltd. and interested parties therein -

In June 2004, K'nafaim Holdings Ltd ("K'nafaim") became an interested party in the Company and in January 2005 it became the controlling party therein. As of December 31, 2007, K'nafaim holds approximately 39.33% of the Company's shares.

Commencing from the year 2005, following the abovementioned amendment to the Regulations, a general description of the transactions, their nature and volume, in accordance with Regulation 64(3)(d), is provided as follows:

Operating revenues for the year 2007 include revenues from companies in the K'nafaim Group and its controlling parties in a total amount of approximately $ 3.7 million, consolidated, and about $ 3.7 million, Company (2006: approximately $3.4 million, consolidated and $1.6 million, the Company; 2005: approximately $ 49 million, consolidated, and $ 48.3 million, Company). In 2007 most of such revenues derived from cargo transport services. In the years 2006 and 2005, the vast majority of such revenue derived from the sale of flight tickets to the Group's travel agencies, and a small part from the rendering of maintenance, loading and cargo transport services.

Operating expenses for the year 2007 include transactions carried out with the K'nafaim Group and its controlling parties, amounting to approximately $40 million (Company and consolidated) (year 2006: $153.5 million, Company and consolidated; 2005: about $ 143.3 million, Company and consolidated pertaining to the purchase of jet fuel from a related company).

Selling expenses include agent commissions of approximately $ 15 thousand (2005-about $2.3 million) paid to the K'nafaim Group and its controlling shareholders (Company and consolidated).
General and administrative expenses include approximately $ 0.9 million for management fees paid to K'nafaim and directors' insurance in 2007 (2006 - $ 0.9 million and 2005: $ 1 million) (as for the management agreement and the group insurance agreement – see Notes 23.o and 23.r.2, respectively).

Other than the items detailed above, the other transactions with the K'nafaim Group and its controlling parties are negligible and they relate to the purchase of cleaning materials, lounge services for hosting airline passengers of foreign airlines, transportation to BGA, magazines for prestigious sections and entertainment brochures on flights, meals served in terminal 3 for delayed-flight passengers, children's accessories, hotel accommodation for outstanding employees and holiday vouchers.

Operating revenues of the Company include revenue of approximately $ 61.8 million (2006: $51.2 million; 2005: about $ 50.9 million) from investees for aircraft leasing to Sun D'Or and sale of flight tickets to Superstar and management fees from Borenstein. These items have been eliminated in the consolidated financial statements.

It also includes (Company and consolidated) revenues from Sabre Israel, an investee, for software use.

Additionally, operating income in 2007 includes additional revenues of $4 million and $6.5 million, Company and consolidated, respectively, from the sale of flight tickets to another interested party.

NOTE 23 - RELATED AND INTERESTED PARTIES

f. Transactions with additional related parties:

Operating expenses of the Company include approximately \$28.8 million (2006: \$ 26.8 million; 2005: about \$ 28 million) of expenses incurred by investees for buying passenger meals from Tamam and Borenstein, as well as additional food services from Katit and materials-handling services from Maman up to April 2005 (when it was sold by the Company). The consolidated amount includes \$ 1.2 million in the year 2005 for the purchase of material-handling services from Maman .

Selling expenses include approximately \$12.3 million in 2007 (approximately \$ 11 million in 2006 and about \$ 10.9 million in 2005) (Company and consolidated) for commissions and marketing fees paid to investees (Airtour, ACI and Sabre).

General and administrative expenses include approximately \$2.8 million (2006: \$ 0.8 million; year 2005: about \$ 2.6 million) (Company and consolidated) for directors' fees and benefits to employed interested parties.

g. Privatization of the Company- see Note 1b.

h. Issuance of a special share – see Note 19f.

i. State of Israel guarantees provided to fulfill Company obligations - see Note 15b.12.

j. Agreement with the Government of Israel to acquire State-owned aircraft and arranging Company debt for the use of aircraft - see Note 9d.

k. Financing the acquisition of aircraft by banks in which the State of Israel owns more than 25% - see Notes 14 and 18.

l. Commitments with the AA – see Note 17d.5.

m. Arrangement with the State of Israel to assure the raising of capital - see Note 15b.3.b.

n. Sole supplier – Boeing Inc. is the Company's sole supplier of aircraft – see Note 9b.

o. Management fees:

The Company's General Meeting of Shareholders, which was held on May 10, 2005, approved a management agreement with the controlling party in the Company according to which the controlling party, through, Prof. Israel (Izzy) Borovich and a personal assistant would render services as active Chairman of the Board to the Company, for which the controlling party would receive monthly management fees of \$60 thousand, in effect from January 9, 2005, over a three-year period.

In addition, the Chairman of the Board and his family members will be entitled to receive free or discounted flight tickets.

NOTE 23 - RELATED AND INTERESTED PARTIES (Cont.)

p. Directors' fees:

The Company's General Meeting of Shareholders, which was held on May 10, 2005, approved each director's fee as compensation for participation in meetings of the Board of Directors and/or any of its committees, as well as entitlement to receive, as a benefit, free or discounted flight tickets for each director and members of his family.

q. Agreement with CEO of the Company:

1. In February 2005, the Board of Directors appointed Mr. Haim Romano as the Company's new CEO, based on an employment contract according to which he would be employed, commencing from March 1, 2005. The agreement entitles the CEO, inter alia, to:

   - Severance pay upon termination of employment equaling two monthly salaries for every year of employment with the Company;
   - An adaptation grant equaling six monthly salaries (18 months in case of dismissal);
   - An annual grant computed on the basis of the Company's net income (as defined in the agreement and which includes adjustments of the income for various expenses - EIBTDA), ranging between 0.7% and 1% of net income after adjustments. The annual grant is not entitled to any social benefits;
   - Options program ("phantom") for a vesting period of up to three years, according to which the CEO will be entitled to a monetary grant computed on the basis of 3,258,210 ordinary ("phantom") shares at an exercise price of NIS 2.2098 per share.

     The gross value of the benefit of the phantom options upon commencement of employment, based on the computation rules of the Tel Aviv Stock Exchange, is estimated at approximately $ 1.5 million.

     During the month of October 2006, an understanding in principle was formulated between the Chairman of the Board of Directors of the Company and the CEO according to which the CEO would waive the balance of the phantom options that were granted to him under his employment contract, as aforementioned. The CEO announced this waiver to the Company's Board of Directors on March 21, 2007.

2. Pursuant to the request of the Company CEO, on March 29, 2006, the Company amended his employment contract so that $ 1.2 million of the grant to which he is eligible for the year 2005, based on the terms of the agreement described in item 1 above, would be postponed and payable in three equal installments in January 2007, January 2008 and January 2009. The entitlement to receive each installment is contingent upon continued employment of the CEO in that position at the time each installment is to be paid.

   On December 31, 2006, the Board of Directors of the Company resolved to amend the agreement with the CEO so that the date of payment of the second installment in the amount of $ 0.4 million would be advanced and paid together with the first installment during the month of January 2007.

   On August 15, 2007, the Company's Board of Directors resolved to adopt another amendment to the agreement with the CEO, so that the payment date of the third installment of $0.4 million would be paid earlier. This installment was paid in August 2007.

3. On August 16, 2006, the Audit Committee and the Board of Directors of the Company approved an amendment to the employment agreement between the CEO and the Company extending the term of employment of the CEO until December 31, 2010.

NOTE 23 - RELATED AND INTERESTED PARTIES (Cont.)

r. Directors' and officers' insurance and indemnification:

The General Meeting of Shareholders of the Company, held on May 10, 2005 approved the following matters:

1. Making an advance commitment to indemnify present as well as future directors, and executives who are not directors, serving from time to time in the Company as long as control over the Company is not transferred from the present controlling parties, and to officers who are not directors, who are or will serve in the Company from time to time, until another resolution is adopted.

   The amount of the indemnification will include any financial obligation imposed as well as reasonable legal expenses not exceeding the lesser of 25% of the Company's shareholders' equity at December 31, 2004 or 25% of its shareholders' equity reported in the last financial statements just prior to the actual payment of the indemnification, in addition to any indemnification amounts received, from the Company's officers' insurance policy.

   The indemnification certificate also entitles the officers to receive interim financing until the legal proceedings are concluded.

2. Acquiring professional-liability insurance for officers, according to which the officers, the Company and the controlling party in the Company will receive insurance coverage within the framework of group insurance obtained with an Israeli and/or foreign insurer, or, alternatively, self-insurance by the Company. The ceiling of joint liability would be a maximum of $ 100 million plus 20% for legal defense expenses.

   The Company's share in the group insurance fees amounts to 65% of the group insurance cost and, in any event, will not exceed $ 450 thousand per annum, with the addition of the run-off premiums as below.

   In the event of self-insurance –the liability ceiling will not exceed $ 100 million per incident and, in total for any annual insurance period, plus 20% for legal defense expenses. The annual premium that will be paid by the Company for self-insurance plus the premiums for run-off insurance will not exceed $ 450 thousand.
   In addition, the General Meeting resolved to adopt a framework resolution for purchasing a run-off policy for officers acting within the scope of their duties until January 5, 2005. Liability will be limited to $ 30 million plus 20% for legal defense expenses. The premium-as itemized above.

s. Fees of officers who are not directors or the CEO

A Special Meeting of Shareholders of the Company, taking place on July 14, 2005, resolved to add Regulation 158a to the Company's bylaws. The added regulation states, among other things, that the fees of officers (not including directors who are not Company employees, other than the CEO, a controlling party, a relative of a controlling party or an interested party in a controlling party), when the issue does not entail an irregular transaction, will be approved by the Human Resources and Appointments Committee of the Board of Directors.

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 - OPERATING SEGMENTS

a. Primary reporting - geographical segments

The Company's activity is organized by flight routes, traffic rights and branches across the globe and, accordingly, the Company reports on geographical segments in a primary format.
Most of the Company's assets and liabilities are attributed to its various fleets of aircraft, which – by designation – are mobile by designation and thus are not identified with any given geographical segment.

The following is the reporting of geographical segments on a consolidated basis –

	North America	Europe	Far East & Central Asia	Other countries	Total
	(in thousand US dollars)				
2007:					
Revenues -					
Segment revenues	674,728	822,320	356,796	42,060	1,895,904
Non-segment revenues					36,546
Total consolidated revenues					1,932,450
Operating income -					
Operating income by segment	48,778	135,630	29,275	10,828	224,511
Overall segment expenses, net					(153,137)
Operating income, before financing expenses - consolidated					71,374
2006:					
Revenues -					
Segment revenues	582,268	699,158	315,237	36,735	1,633,398
Non-segment revenues					32,048
Total consolidated revenues					1,665,446
Operating income -					
Operating income by segment*	14,937	84,119	39,535	7,989	146,580
Overall segment expenses, net					(155,050)
Operating loss, before financing expenses - consolidated					(8,470)
2005:					
Revenues -					
Segment revenues	569,188	706,407	280,093	34,820	1,590,508
Non-segment revenues					28,961
Total consolidated revenues					1,619,469
Operating income -					
Operating income by segment*	57,483	165,524	33,310	11,511	267,828
Overall segment expenses, net					(181,278)
Operating income, before financing expenses - consolidated					86,550

* Restated – see Note 2.z.

NOTE 24 - OPERATING SEGMENTS (Cont.)

b. Secondary reporting – business segments

The Company's activity is organized by fleets of aircrafts. Accordingly, the Company reports in a secondary format on its business segments, on the basis of a division by passenger and cargo aircraft.

The following is the reporting by business segments on a consolidated basis –

	Passenger aircraft	Cargo aircraft	Other and consolidation adjustments	Total
	(in thousand US dollars)			
2007:				
Revenues from :				
Passengers	1,547,505	-	-	1,547,505
Cargo and mail	106,217	216,338	-	322,555
Other income	38,692	994	22,704	62,390
Total revenues	1,692,414	217,332	22,704	1,932,450
Net book value of fixed assets	1,196,726	42,467	47,228	1,286,421
Capital investments	225,130	13,751	9,677	248,558
Depreciation and amortization	90,198	18,074	11,529	119,801
2006:				
Revenues from :				
Passengers	1,277,746	-	-	1,277,746
Cargo and mail**	98,696	232,910	-	331,606
Other income	34,426	965	20,703	56,094
Total revenues	1,410,868	233,875	20,703	1,665,446
Net book value of fixed assets*	1,070,258	57,100	49,170	1,176,528
Capital investments	99,869	13,100	15,925	128,894
Depreciation and amortization	79,224	20,428	11,634	111,286
2005:				
Revenues from :				
Passengers	1,259,773	-	-	1,259,773
Cargo and mail**	98,815	210,305	-	309,120
Other income	33,254	839	16,483	50,576
Total revenues	1,391,842	211,144	16,483	1,619,469
Net book value of fixed assets*	1,075,676	66,708	45,597	1,187,981
Capital investments	83,601	8,200	8,921	100,722
Depreciation and amortization	80,976	16,411	10,182	107,569

* Restated – see Note 2.z.

** Data on revenues from cargo and mail of the years ended December 31, 2006 and 2005 were reclassified between passenger aircraft and cargo aircraft, in order to adjust them to the present manner of presentation in the financial statements for the year ended December 31, 2007.

NOTE 25 - FINANCIAL INFORMATION ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

a. Overview

Following publication of Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)", in July 2006, the Company intends to adopt the IFRS commencing January 1, 2008.

Pursuant to the provisions of IFRS 1, which deals with the first-time adoption of IFRS Standards, and considering the date on which the Company chose to adopt these Standards for the first time, the first financial statements that the Group must prepare according to IFRS Standards are the consolidated financial statements as of December 31, 2008 and for the year then ended. The transition date for the Company's reporting according to IFRS Standards, as defined in IFRS 1, is January 1, 2007 (hereafter – "the transition date"), with the opening balance sheet being the balance sheet as of January 1, 2007 (hereafter – "the opening balance sheet"). The Company's interim financial statements for the year 2008 will also be prepared according to IFRS Standards, including comparative figures.

Within the framework of the opening balance sheet, the Company took the following actions:

- Recognition of every asset or liability, the balance sheet recognition of which is required according to IFRS Standards.
- Non-recognition of assets and liabilities which, according to IFRS Standards, are not to be recognized in the balance sheet.
- Classification of asset, liability and shareholders' equity items according to IFRS Standards.
- Measurement of all assets and liabilities recognized according to IFRS Standards.

IFRS 1 provides that IFRS Standards are to be applied in the opening balance sheet retroactively. However, IFRS 1 includes several exceptions, for which the retroactive application requirement does not apply. Regarding the exceptions applied by the Company, see Par. f below.

Changes in accounting policy applied by the Company retroactively in the opening balance sheet according to IFRS Standards, compared with the accounting policies according to Israeli GAAP, were recognized directly in retained earnings or in another shareholders' equity item, as applicable.

This note was prepared based on international financial reporting and accounting standards and their clarifications, as known presently, which were published and will take effect, or may be adopted early in the Group's first annual reporting date according to IFRS, December 31, 2008. Accordingly, the Company's management has made assumptions regarding the accounting policies that are expected to be applied when the first annual financial statements according to IFRS will be prepared for the year ended December 31, 2008.

IFRS Standards that will be in effect or may be adopted in the financial statements for the year ended December 31, 2008, are subject to changes and the publication of additional clarifications. Accordingly, the accounting policies that will be applied for the presented periods will be determined finally only when the first financial statements will be prepared according to IFRS as of December 31, 2008.

NOTE 25 - FINANCIAL INFORMATION ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont.)

a. Overview (cont.)

Presented below are the consolidated balance sheets of the company as of January 1, 2007 and December 31, 2007, statements of operations for the year ended December 31, 2007 and total shareholders' equity of the Company prepared according to international accounting standards. Also presented are the material adjustments required for transition from Israeli GAAP to IFRS reporting.

Likewise, in June 2007, IFRIC, the body that issues interpretations of the International Standards on behalf of the IASB, published IFRIC 13, which discusses the accounting treatment of grant and benefit plans designed to win customer loyalty. The Company has a frequent-flyer plan (see Note 2.l), which is covered by this publication. According to this interpretation, the fair value of the proceeds received from the sale of flight tickets are to be separated into the element of the flight ticket and the element of the grant, which will be measured at fair value. This interpretation is to be applied in Israel for the annual financial statements for the period commencing January 1, 2009. However, it is permitted to adopt the interpretation in early application. The Company's management is studying the interpretation and has not yet decided whether to adopt it in early application. The information presented below on the effect of the transition to international financial reporting standards does not include the effect of the transition to IFRIC 13.

NOTE 25 - FINANCIAL INFORMATION ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont.)

b. Consolidated balance sheets:

	Additional information	December 31, 2007 Israeli GAAP	December 31, 2007 Adjust-ments	December 31, 2007 IFRS Standards	December 31, 2006 Israeli GAAP	December 31, 2006 Adjust-ments	December 31, 2006 IFRS Standards
		(in thousand US dollars)					
Cash and cash equivalents		86,670	-	86,670	146,158	-	146,158
Short-term investments		180,633	-	180,633	4,682	-	4,682
Trade accounts receivable		143,617	-	143,617	132,544	-	132,544
Receivables and other current assets	3	51,953	20,927	72,880	47,342	2,907	50,249
Deferred taxes	5	19,569	(19,569)	-	30,645	(30,645)	-
Inventory		15,981	-	15,981	17,190	-	17,190
		498,423	1,358	499,781	378,561	(27,738)	350,823
Investments							
Long-term investments	3	3,922	8,524	12,446	3,665	9,162	12,827
Investees		2,268	-	2,268	2,280	-	2,280
		6,190	8,524	14,714	5,945	9,162	15,107
Fixed assets		1,286,421	-	1,286,421	1,176,528	-	1,176,528
Other assets		3,719	-	3,719	3,455	-	3,455
		1,794,753	9,882	1,804,635	1,564,489	(18,576)	1,545,913
Current liabilities							
Short-term borrowings and current maturities		66,316	-	66,316	105,100	-	105,100
Trade accounts payable		167,420	-	167,420	144,990	-	144,990
Payables and other current liabilities	1,2	407,842	(2,143)	405,699	332,691	27,900	360,591
Dividend proposed for payment		3,009	-	3,009	-	-	-
		644,587	(2,143)	642,444	582,781	27,900	610,681
Long-term liabilities							
Long-term loans from financial institutions		713,793	-	713,793	566,104	-	566,104
Accrued severance pay, net	1	70,936	(17,405)	53,531	126,171	(21,297)	104,874
Deferred income taxes		72,510	(7,406)	65,104	74,603	(24,918)	49,685
Other long-term liabilities	3	423	2,369	2,792	730	1,861	2,591
		857,662	(22,442)	835,220	767,608	(44,354)	723,254
Shareholders' equity		292,504	34,467	326,971	214,100	(2,122)	211,978
		1,794,753	9,882	1,804,635	1,564,489	(18,576)	1,545,913

EL AL ISRAEL AIRLINES LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 25 - FINANCIAL INFORMATION ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont.)

c. Consolidated statements of operations

	Additional information	For the year ended December 31, 2007 Israeli GAAP	Adjust-ments	IFRS Standards
		(in thousand US dollars)		
Operating revenues		1,932,450	-	1,932,450
Operating expenses	1,3	1,539,658	(554)	1,539,104
Gross profit		392,792	554	393,346
Selling expenses	1	230,637	249	230,886
General and administrative expenses	1,2	90,781	838	91,619
Other income net	7	-	(2,423)	(2,423)
Operating income before net financing income (expenses)		71,374	1,890	73,264
Financing expenses	3,4	(33,393)	(27,676)	(61,069)
Financing income	6	-	20,239	20,239
Operating income after net financing income (expenses)		37,981	(5,547)	32,434
Other income, net	7	2,423	2,423	-
Pre-tax income		40,404	(7,970)	32,434
Income tax savings (expenses)		(9,001)	2,240	(6,761)
Income after income taxes		31,403	(5,730)	25,673
Company's equity in earnings of affiliates, net		332	-	332
Net income for the year		31,735	(5,730)	26,005
Earnings (loss) per share (NIS 1 par value) – in dollars				
Basic earnings per share		0.07	(0.02)	0.05
Fully-diluted earnings per share		0.06	(0.01)	0.05
Number of shares used in the computation of EPS (in thousands)				
Basic earnings per share		476,289	-	476,289
Fully-diluted earnings per share		495,934	-	495,934

NOTE 25 - FINANCIAL INFORMATION ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont.)

d. Adjustment to capital

	Additional information	Share capital	Premium on shares	Capital reserve from trans-actions with former controlling party	Capital element of complex financial instru-ments	Benefit from stock-based transac-tions	Retained earnings	Total
		(in thousand US dollars)						
As of January 1, 2007								
Israeli standard		131,536	904	218,498	-	2,582	(139,420)	214,100
Adjustment of accrued severance pay, net	1	-	-	-	-	-	16,501	16,501
Presentation of hedging instruments at fair value	3	-	-	-	(1,977)	-	3,181	1,204
Presentation of liability for options issued at fair value	4	-	-	-	-	-	(19,930)	(19,930)
Presentation of liabilities for legal claims	2	-	-	-	-	-	103	103
According to IFRS Standards		131,536	904	218,498	(1,977)	2,582	(139,565)	211,978
As of December 31, 2007								
Israeli standard		155,012	9,248	243,787	-	4,464	(120,007)	292,504
Adjustment of accrued severance pay, net	1	-	-	-	-	-	14,952	14,952
Presentation of hedging instruments at fair value	3	-	-	-	21,582	-	(1,777)	19,805
Presentation of liability for options issued at fair value	4	-	18,759	-	-	-	(18,759)	-
Presentation of liabilities for legal claims	2	-	-	-	-	-	(290)	(290)
According to IFRS Standards		155,012	28,007	243,787	21,582	4,464	(125,881)	326,971

NOTE 25 - FINANCIAL INFORMATION ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont.)

e. Additional information

1. According to Israeli GAAP, accrued severance pay is recognized on the basis of the full liability, assuming that employees will be dismissed on the balance sheet date at terms that entitle him to full severance pay, without considering discount rates, the rates of future salary increases, and future resignations. According to IFRS Standards, all liabilities for employee retirement benefits and other long-term benefit plans are measured, inter alia, based on actuarial estimates and discounted amounts. Likewise, according to IFRS Standards, no severance pay is accrued when the benefit to the employee will be given only if the employer dismisses the employee.

   Accrual for retirement plan – According to Israeli GAAP, accruals for retirement plans are recorded based on management's expectations for their realization. According to IFRS, recognition in the retirement plan will be recognized when there is a detailed, formal retirement plan that creates an irrevocable obligation for the Company.

   Likewise, according to Israeli GAAP, the vacation accrual is recognized based on the full liability, assuming that employees will utilize all of the vacation days to which they are entitled, within the short-term.
   According to IFRS Standards, the liabilities for vacation are recorded based on expectations for utilization of vacation days and are measured based on actuarial estimates and discounted amounts.

   To date, the Company has recorded an accrual for redemption of unused sick days upon retirement only for employees who attained the age of 45 and at non-discounted values (as in Note 15.b.4). According to IFRS Standards, this accrual is computed for all Company employees and at discounted values.

   The said effect on the balance sheet is a reduction of the liabilities for employee benefit plans, net as of January 1, 2007 and December 31, 2007 of $22,001 thousand and $19,936 thousand, respectively.
   Likewise, concurrently, deferred tax assets as of January 1, 2007 and December 31, 2007 were reduced by $5,500 thousand and $4,984 thousand, respectively.

   The discount rate used in the computation of the actuarial liabilities was determined by using the market yields on government bonds, because management believes there is no "deep market" for high-quality corporate bonds in Israel. The issue of the discount rate is being examined, and it is possible that eventually a decision will be reached that the appropriate discount rate in Israel is based on the market yields of corporate bonds. If such a decision is reached, the data computed and included in the note will be changed, since the use of a higher discount rate will reduce the actuarial liability on one hand, and increase current interest costs on the actuarial liabilities on the other hand.

NOTE 25 - FINANCIAL INFORMATION ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont.)

e. Additional information (cont.)

2. According to Israeli GAAP, the Company recognizes a provision for legal claims pending if it is probable that economic resources will be used to settle the obligation. According to IFRS, a provision is to be recognized if the chances for the existence of an obligation as of the balance sheet date is more likely than not. The level of the provision in IFRS Standards is determined according to the amount that the Company estimates it will be willing to pay in order to settle the claim.

   Consequently, the provision for legal claims decreased by $138 thousand as of January 1, 2007 and increased by $388 thousand as of December 31, 2007. Likewise, at the same time, there was an increase in deferred tax liabilities as of January 1, 2007 of $35 thousand and an increase in deferred taxes receivable as of December 31, 2007 of $97 thousand.

3. Differing from Israeli GAAP, according to IAS 39, all derivative financial instruments are recognized as assets or liabilities at their fair value. The changes in fair value will be charged to gain/loss (in speculative instruments that do not meet the requirements for recognition as a hedging instrument) or to a capital reserve (in instruments designated for a hedge of projected cash flows). To date, it has not been the Company's practice to give balance sheet expression to the fair value of the hedge transactions for jet fuel. With the transition to IFRS, jet-fuel hedging transactions will be stated in the opening balance sheet at their fair value, against a capital reserve. The change in the fair value of jet-fuel hedge transactions in subsequent periods will be charged to a capital reserve, regarding the "effective" part of the hedging instrument and to operating results in the statement of operations for the part that is not "effective".

   Regarding foreign currency and interest hedges, according to Israeli GAAP, the Company included in the balance sheet only the fair value of the interest and foreign-currency hedge transactions that were not recognized as hedges for accounting purposes, in other current assets or liabilities, as applicable. According to IAS 39, all interest and foreign-currency hedge transactions (whether or not recognized for accounting purposes) will be stated in the consolidated balance sheet at their fair value.

   The Company's management decided that within the framework of IFRS Standards, foreign-currency and interest hedges will be treated as though they are not designated for hedging. Therefore, any fair value change in subsequent periods of the interest and foreign currency hedges will be charged to the financing item in the statement of operations.

   As a result of the fair value presentation of every hedging instrument, changes occurred in the appropriate balance sheet items as of January 1, 2007 and December 31, 2007 in other current assets, other current liabilities, long-term investments and long-term liabilities, and concurrently, deferred tax balances were modified for these changes. Retained earnings as of January 1, 2007 increased by $3,182 thousand and as of December 31, 2007 decreased by $1,777 thousand. Likewise, for jet-fuel hedge transactions, a debit-capital reserve was created in the opening balance sheet as of January 1, 2007 of $1,977 thousand and as of December 31, 2007, the capital reserve balance is $21,582 thousand credit.

NOTE 25 - FINANCIAL INFORMATION ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont.)

e. Additional information (cont.)

4. Options (Series 1) that were issued by the Company in the past, and which have a CPI-linked exercise price, and is not in the Company's functional currency, constitute a financial liability because their exercise price is not a fixed amount. According to IAS 32, the liability for these options is to be recorded in the opening balance sheet in other short-term liabilities (since their exercise date is in 2007) at their fair value. The changes in fair value during the subsequent periods are charged to the statement of operations periodically. When the options are exercised the above liability is added to the premium, such that the underlying shares will be recorded at their fair value.
   These options were exercised by June 2007.

   Consequently, other current liabilities increased (against a decrease in retained earnings) as of January 1, 2007 by $19,930. As of December 31, 2007, the options had already been exercised and as a result, the premium item increased (against a decrease in retained earnings) by $18,759 thousand.

5. According to Israeli GAAP, deferred tax assets and provisions were classified as current or non-current assets or current or non-current liabilities, based on the classification of the assets or liabilities for which they were created.
   According to IAS 1, deferred tax assets and provisions (as applicable) are classified as non-current assets or provisions, net, even if their exercise date is expected to be in the short-term.

   Consequently, $32,013 thousand and $20,161 thousand were classified as of January 1, 2007 and December 31, 2007, respectively from deferred taxes receivable in current assets to deferred taxes in non-current liabilities.

6. According to Israeli GAAP, financing income and expense are included in the statement of operations as a single amount. According to international standards, financing expenses and financing income are to be stated separately.

   Consequently, financing expenses of $61,069 thousand and financing income of $20,329 thousand were presented separately for the year ended December 31, 2007.

7. According to international standards, other income and expenses will no longer be included as a separate item after financing income and expenses, as had been the presentation according to Israeli GAAP, but will be included in operating income. Accordingly, in the year ended December 31, 2007, other income, net, of $2,423 thousand was classified in operating income.

NOTE 25 - FINANCIAL INFORMATION ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont.)

f. Exceptions from retroactive application of IFRS Standards adopted by the Company:

IFRS 1 includes several exceptions, for which the retroactive application requirement does not apply. Presented below are those exceptions selected by the Company for application in its opening IFRS balance sheet as of January 1 (hereafter - "the opening balance sheet").

1. Employee benefits –
   The Company applies the "corridor" approach for recognition of actuarial gains and losses, in accordance with the provisions of IAS 19. The Company elected to recognize all actuarial gains and losses that accrued until January 1, 2007 in retained earnings.

2. Hedge accounting – Jet-fuel hedge transactions, which constitute a cash flows hedge, and which fulfill the hedging requirements of IAS 39, but do not fulfill the requirements of specific designation and documentation, were classified on the transition date as hedge transactions. This is after the Company met the specific designation and documentation of the hedge relationship of these instruments, by the transition date.

NOTE 26 - SUBSEQUENT EVENTS

1. On January 27, 2008, the Government reached a decision, the highlights of which are:

A. Increasing the State's rate of participation in the burden of security expenses of Israeli airlines to 80% of total direct expenses of operation of existing and future international routes (compared with the present rate of 50%).

B. Amendment of the decision by the Ministerial Committee for Social and Economic Matters from May 19, 2003 regarding the aviation policy of the State of Israel on scheduled routes. The previous decision stipulated that the Company would continue to serve as the designated carrier on all routes on which it had served as designated carrier immediately prior to publication of the Company's prospectus in 2003. The prior decision also included conditions and considerations allowing the Minister of Transport to revoke the Company's status as designated carrier on a certain route and/or to grant the right as additional Israeli designated carrier on a certain route, and stipulated that the policy would consider whether and when the volume of inbound and outbound passenger air traffic exceeds 10.7 million in a year.

   The Government's decision reached on January 27, 2008 provided that the guiding considerations would be revoked, and instead, it was stipulated that the Minister of Transport, within the scope of his considerations with respect to aviation policy, according to his authorities by law, will consider whether to grant the rights of additional designated carrier on scheduled air routes, and will consider whether to revoke the Company's status as designated carrier on a specific route.

   The Company's board of directors resolved that the Government's decision is acceptable to it, in view of the increase in the rate of the State's participation in the security expenses burden of Israeli airlines, and based on the declaration included in the Government's decision regarding the trend to enable Israeli airlines to contend, to the extent possible, in fair and equal competition against foreign airlines, while recognizing the need for the existence of strong Israeli aviation.

NOTE 26 - SUBSEQUENT EVENTS (Cont.)

2. On March 16, 2008, an agreement was signed between the Company and the aircraft manufacturer "Boeing", whereby the Company would purchase four new model 777-200 ER planes from Boeing.

These planes, which will be equipped with "Rolls Royce" engines, are expected to join the Company's passenger fleet for intermediate and long-range flights, and will have the format of 279 seats. The planes will be supplied to the Company in January 2012, April 2012, November 2012 and January 2013.

The total purchase cost of the four planes, including spare parts and installations needed to tailor them to the Company's needs, is $540 million.

According to the agreement with Boeing, the payments for each plane will be in only two years before the planes are supplied to the Company. At this stage, the Company has not reached a final decision on the way to finance the transaction, and the Company is evaluating different possibilities.

Pursuant to the agreement, the Company was given the option to convert the purchase to new 777-300 ER aircraft (which will be equipped with General Electric engines), having the format of 348 seats. The exercise of the option is subject to the Company's decision, which will be reached by December 31, 2008. Exercise of the option involves changing terms of the agreement, although the dates of supply of the planes will remain unchanged.

Likewise, the agreement contains an additional option granted to the Company to purchase two additional planes of this model, to be supplied to the Company in the years 2014-2015, according to the terms stipulated in the agreement.

The agreement is subject to the ratification of the Company's board of directors, which pursuant to the agreement, must be reached not later than May 1, 2008.

The Company is examining its existing fleet and the adaptations needed, in view of the purchase agreement, additional agreements to purchase planes (as reported by the Company) and according to the Company's business strategy of "El Al 2010".

NOTE 26 - SUBSEQUENT EVENTS (Cont.)

3. On December 4, 2007, the Company's board of directors approved the purchase of new Boeing 737-800 planes.

Subsequent to the balance sheet date, on February 18, 2008, a memorandum of understanding was signed between the Company and a Spanish airline, whereby at this stage, 3 new planes of this model will be purchased. The planes are expected to be received during 2009. An estimate of the total investment for the purchase of these three planes, including the investments needed by the Company to integrate them, is estimated at $145 million. Internal financing resources are expected to be 15% of the price of the planes, and the balance will be financed by loans.

This purchase conforms to the Company's business strategy to gradually refresh its aircraft fleet, in accordance with the principles of the "El Al 2010" business strategy.

The purchase of planes is subject to conditions including the completion of negotiations and signing of a contract with the holder of the rights to the planes, and is contingent on receiving adequate financing from financial institutions.

4. On January 10, 2008, the Company signed an agreement to purchase a 747-400 aircraft. The plane, manufactured in 1994, will be supplied to the Company not later than December 2008.

The consideration that the Company will pay for the plane's purchase and for the investments in its integration in the Company, and the cost of additions and installations that will be made in the plane to customize it to the Company's needs, totals $50 million. The proceeds will be paid upon receipt of the aircraft.

The independent financing resources are estimated at $10 million, with the balance to be financed through loans pursuant to a long-term credit agreement with a foreign bank.

The purchase of the plane conforms to the Company's business strategy, "El Al 2010", pursuant to which the Company continues to evaluate its equipment needs.

EL AL ISRAEL AIRLINES LTD.
APPENDIX A TO THE FINANCIAL STATEMENTS

DETAILS CONCERNING MAJOR ACTIVE INVESTEES
AS OF DECEMBER 31, 2007

Company	Business activity	Control and ownership as of the balance-sheet date (%)
Subsidiaries		
Bornstein Caterers Inc. (USA)	Production and supply of airline meals	100.0
Tamam Aircraft Food Industries (Ben-Gurion Airport) Ltd.	Production and supply of airline meals	100.0
Sun D'Or International Airlines Ltd.	Operation of charter flights	100.0
Superstar Holidays Ltd.(Britain)	Marketing of tour packages	100.0
Katit Ltd.	Supplying meals to employees	100.0
Affiliates		
Sabre Israel Travel Technologies Ltd.	Management of flight ticket orders	49.0
Kavei Chufsha. Ltd.	Marketing of tourism services	20.0
Other investees		
Airtour Israel Ltd.	Grouping flight tickets	- (1)
Air Consolitours Israel Ltd. (ACI)	Grouping cargo	- (2)

Notes:

(1) The shares held by the Company grant it the right to participate and vote in its company's General Meetings (at the rate of 50%) and to appoint half of the directors, without the right to receive any profits.

(2) The ordinary shares held by the Company grant it the right to participate and vote in the company's General Meetings and appoint half of the directors, without the right to receive any profits.