# El Al Israel Airlines Presented Today its Financial Results for the First Quarter of 2017

LOD, Israel, May 24, 2017 /PRNewswire/ -- El Al Israel Airlines (TASE: ELAL) announced today that operating revenues in the first quarter of 2017 amounted to approx. USD 418 million, compared to approx. USD 396 million in the first quarter of the previous year, indicating a growth of about 5.3%.

The number of flight segments in the first quarter of 2017 increased by approx. 7.1% compared to the first quarter of the previous year; ASK-Available seat kilometer increased by approx. 1.3%; the Company's activity in terms of RPK (revenue-passenger-kilometers) increased by approx. 5.1%.

Passenger Load Factor stood at approx. 83.7%, an increase of about 4% compared to the first quarter of the previous year.

Average total income per RPK (Yield) increased by about 0.5% compared to the first quarter of the last year.

El Al market share at Ben Gurion Airport stood at approx. 32.8%. during this quarter, the number of passengers carried by the Company increased by about 7%, whereas overall passenger traffic at Ben Gurion Airport rose by approx. 17%.

Loss before taxes in the first quarter of 2017 amounted to approx. USD 39 million, compared to a loss before taxes of approx. USD 34 million in the first quarter of the previous year.

Net loss in the first quarter of 2017 amounted to approx. USD 30 million, compared to a net loss of approx. USD 21 million in the first quarter of 2016. This increase is mainly due to an increase in payroll costs (resulting mostly from the timing of one-time bonuses for 2016 and the shekel appreciation) and a rise in jet-fuel costs.

Cash flow from operating activities in the first quarter of 2017 amounted to approx. USD 77 million compared to approx. USD 72 million in the first quarter of last year.

EBITDA amounted to approx. USD 10 million, compared to approx. USD 11 million in the first quarter of last year.

The Company's cash balances as of March 31, 2017 totaled approx. USD 228 million.

**David Maimon, El Al's CEO:**

"The Company presented impressive operating results for the first quarter, better than those of the first quarter of last year, and recorded a growth of about 5.3% in revenues, despite intensifying competition and expansion of Ben Gurion Airport's Open Sky Policy. The number of passengers carried by the Company rose by about 7%, the Company's seat availability grew by about 1.3%, its operations increased by about 5%, passenger load factor grew by approx. 4% to 83.7%, which is unusually high, particularly in a weak seasonal quarter.

As part of the Company's route expansion strategy, we are preparing to launch the new route to Miami in early November this year.

The Frequent Flyer Club, both in Israel and overseas, and in particular the FLYCARD credit card, serve as a significant growth engine, which is translated into an impressive expansion trend. The number of credit card holders currently stands at about 220 thousand. The number of EL AL's Frequent Flyer Club members also continued to grow, reaching more than 1.8 million members.

The Company is in the final preparations for receiving of the Dreamliner aircrafts, the first of which is expected to arrive this August. These airplanes will provide our customers with ultimate comfort, customer experience and quality service, and will enhance the Company's ability to continue to successfully cope with market conditions in the face of intensifying competition."

**Dganit Palti, El Al's CFO, stated:**

"In the first quarter, the Company recorded an impressive growth in revenues and gross profit, along with a decline in operating profit, due to an increase in payroll costs, which resulted from the shekel appreciation compared to the dollar and the timing of bonus payments for the year 2016. In addition, fuel expenses increased as a result of a price increase which was partially offset by a positive effect of hedging transactions.

The Company's operation generated positive cash flow from operating activities of approx. USD 77 million and with a cash balance of approx. USD 228 Million dollar.

During the first quarter, the Company began making advance payments for the Dreamliner aircrafts, as part of its Aircraft Acquisition Program, totaling approx. USD 54 million dollar, part of which was financed by bank loans.

The cash balances of the Company's reserve fund and its high cash flow from operating activities provide a solid foundation for investment promotion within the framework of the Company's long-term strategic plan."

Profit and Loss Results for the Three Month-Period Ended on March 31:

| | 2017 | 2016 | Change |
|---|---|---|---|
| Operating revenues | 418 | 396 | 5% |
| Operating expenses | (377) | (362) | 4% |
| Gross profit | 41 | 34 | 19% |
| EBITDA | 10 | 11 | (6%) |
| Loss before taxes on income | (39) | (34) | 16% |
| Loss for the period | (30) | (21) | 40% |

1. **Operating revenues –** operating revenues increased in the reported period by approx. USD 21.2 million (about 5.3%) compared to the first quarter of 2016, whereas revenue from passengers increased by approx. 8.0%. Revenues were mainly affected by the rise in the number of passengers carried by the Company and in Revenue Passenger Kilometer (RPK), mostly as a result of an increase in load factor and also somewhat due to the increase in Available Seat Kilometer (ASK). In addition, an increase of 0.5% occurred in the Company's passenger yield per kilometer. The Company's cargo revenues decreased by approx. 16.1%, as a result of a drop in Revenue Ton Kilometer (RTK) flown and in yield per ton-kilometer.

2. **Operating expenses –** operating expenses increased in the reported period by approx. USD 14.7 million (about 4.1%) compared to the first quarter of 2016. This increase mainly resulted from an increase in the Company's payroll expenses due to several factors, of which the main of them are: employee bonuses approved by the Company's competent organs in April 2017, for the year 2016, and recognized as expenses in the financial statements in the first quarter of 2017; the strengthening of the shekel against the dollar, as well as an increase in employee wages due to wage increases pursuant to the Company's wage agreements, including agreements signed with the pilot representatives, in December 2016 and February 2017. An additional factor for the increase in the Company's operating expenses is the growth in jet fuel expenses and depreciation expenses. The operating expenses increase was partially offset by the decline in ad hoc leasees of passenger and cargo aircrafts, compared to the first quarter of the previous year. It should be noted that in the current quarter, the operating expenses were also affected, among others, by disruptions in staffing of the company's flights. However, compared to the same quarter last year, this effect was smaller.

3. **Jet Fuel Expenses –** the Company's jet fuel expenses, including hedging impact, rose by approx. USD 7.2 million (about 8.6%) compared to the corresponding expenditure in the first quarter of 2016, as a result of an increase in the price of jet fuel, which was offset in part by the impact of jet fuel hedging transactions and the decline in flight hours.

| | 2017 | 2016 | Change |
|---|---|---|---|
| | In USD millions | | |
| Jet fuel expenses for the period (before hedging impact) | 91.5 | 63.3 | 28.2 |
| Impact of jet fuel hedging transactions on profit and loss | (1.0) | 20.0 | (21.0) |
| Total jet fuel expenses (including hedging impact) | 90.5 | 83.3 | 7.2 |

4. **Selling Expenses –** selling expenses increased by approx. 11%, partially due to an increase in payroll expenses as a result of wage increases under the employment agreement and the strengthening of the shekel against the dollar, and partially due to higher distribution expenses, inter alia, as a result of the growth in the number of sales transaction.

5. **General and Administrative Expenses -** general and administrative expenses rose by approx. 29% compared to first quarter of the previous year. Most of the increase is attributable to the increase in payroll expenses, mainly due to the bonuses paid to employees and officers for the year 2016, which, as mentioned above, were approved by the Company's competent organs in April 2017. In addition, payroll expenses were affected by the strengthening of the shekel against the dollar, as well as by wage increases pursuant to the employment agreement. The rise in general and administrative expenses resulted also from an increase in professional services expenses.

6. **Financing Expenses -** financing expenses amounted to approx. USD 5.0 million, compared to approx. USD 4.9 million in the first quarter of the previous year.

7. **Loss before taxes –** loss before taxes in the reported period amounted to approx. USD 38.8 million, compared to a loss before taxes of approx. USD 33.5 million in the first quarter of the previous year.

8. **Tax Benefit –** the tax benefit in the reported period amounted to approx. USD 8.8 million, compared to approx. USD 12.1 million in the first quarter of the previous year. The tax benefit in the first quarter of the previous year included an amount of approx. USD 3.8 million, as a result of the drop in the corporate tax rate, from 26.5% to 25%, commencing January 1, 2016.

9. **Loss for the Period –** loss after taxes in the reported period totaled approx. USD 30 million, constituting about 7.2% of the turnover, compared to a loss after taxes of approx. USD 21.4 million, constituting about 5.4% of the turnover.

***Balance Sheet Data as of March 31, 2017:***

1. ***Current Assets*** **-** amounted to approx. USD 493.9 million, reflecting a growth of approx. USD 55.7 million compared to December 31, 2016. This growth resulted mostly from an increase in cash balances, compared to the cash balances at the end of 2016, and from a seasonal increase in Trade receivables balance, which were partially offset by a decrease in the Derivatives Financial Instruments item.

2. ***Current Liabilities*** **-** amounted to approx. USD 887.2 million, reflecting a growth of approx. USD 83.9 million compared to December 31, 2016. This growth arises from a seasonal increase in unearned revenues from the sale of flight tickets, which was partially offset by a decrease in short-time borrowings and current maturities, mainly as a result of a refinancing agreement with a local bank.

3. ***Working Capital*** **–** the Company has a working capital deficit of approx. USD 393.3 million compared to a deficit of approx. USD 365.1 dollar as of December 31, 2016. It shall be noted that a substantial part of the working capital deficit does not reflect short-term cash flows, as explained below. The Company's current ratio as of March 31, 2017 increased to approx. 55.7%, compared to 54.6% as of December 31, 2016. The working capital deficit as of March 31, 2017 consists of two substantial components which are included in the Company's Current Liabilities items and are characterized by current business cycle; however, the Company is not required to use cash-flow sources in the short term in order to repay these components: unearned revenues from the sale of flight tickets and from the Frequent Flyer Club, to be settled by providing future flight services, and liabilities to employees for vacation, which are expected to be paid over several years but classified as a short-term liability in accordance with accounting principles. Furthermore, current liabilities include loans for financing advance payments for the 787 aircrafts, whose source of repayment is based on a long-term financing provided upon receipt of these aircrafts. These amounts total approx. USD 497 million.

4. ***Non-Current Assets*** **–** amounted to approx. USD 1,314.0 million, indicating an increase of approx. USD 32.1 million compared to their balance as of December 31, 2016, mainly as a result of advance payments made for the 787 Boeing aircrafts acquisition, less current depreciation.

5. ***Non-Current Liabilities*** **-** totaled approx. USD 674.7 million, indicating an increase of approx. USD 41.9 million, compared to their balance as of December 31, 2016. This increase is mainly attributable to the increase in the loan balance (see refinancing agreement above), which was partially offset by the decrease in deferred tax liabilities, mostly due to the loss before taxes for the period.

6. ***Equity*** **–** amounted to approx. USD 246.0 million. The decrease of approx. USD 38.1 million, compared to equity as of December 31, 2016, mainly resulted from the loss for the period and the impact of the Company's

hedging instruments on the capital reserve , in a negative, net-of-tax amount of approx. USD 9.2 million.

It shall be clarified that this notice does not replace reading the financial statements of the Company as of March 31, 2017

**About El Al**

El Al Israel Airlines Ltd. (TASE: ELAL) is the National Air Carrier of Israel. In 2016, El Al recorded revenues amounting to nearly USD 2.04 billion. El Al carries about 5.5 million passengers a year. **The** Company operates flights to about 34 direct destinations around the world and many other destinations by means of cooperation agreements with other airlines, thus it currently operates 43 aircrafts, 28 of which are owned by the Company.

(www.elal.com)

**Details of Conference Call**

A conference call shall took place on Wednesday, May 24, 2017, at 12:30. Persons interested in participating in the conference call are invited to call: 03-9180685. A recording of the conference call will be available to those interested starting from May 24, 2017, at 17:00, until May 31, 2017, via phone number 03-9255937, as well as on the Company's Investor Relations website at: www.elal.com/investor-relations starting from May 26, 2017.

*For further details:*

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