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EL AL ISRAEL AIRLINES LIMITED

Consolidated Financial Statements

For 2010

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EL AL ISRAEL AIRLINES LIMITED

2010 CONSOLIDATED FINACIAL STATEMENTS

Contents

Deloitte.
בריטמן אלמגור זהר

Independent Auditors' Report to Shareholders of El Al Israel Airlines Ltd.
On the Matter of the Auditing of Components of Internal Controls of Financial Reporting
In Accordance with Section 9.b.(c) of the Securities Regulations (Periodic and Immediate Reports), 1970

We have inspected components of the internal controls of the financial reporting of El Al Israel Airlines Ltd and its subsidiaries (hereinafter "the Company") as of December 31 2010 These control components have been set as explained in the following paragraph The Company's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of the internal controls over financial reporting which is included in the periodic report for the date in question Our responsibility is to express our opinion on the internal control elements of the Company's financial reporting, based on our audit

Components of internal control of financial reporting inspected by us were determined according to Audit Standard 104 of the Institute of Certified Public Accountants in Israel "Inspection of Components of Internal Controls for Financial Reporting" (hereinafter "Audit Standard 104") These components are (1) organization-level controls, including controls of the process of preparing and closing financial reporting and general controls of information systems, (2) controls of passenger revenues from the sale of flight tickets (with the exception of subsidiaries), (3) controls of frequent flyer club, (4) controls for fixed assets – aircraft, engines and spare parts, (5) controls for derivative financial instruments, (6) controls for agent commission expenses (Israeli branch), controls for fuel expenses, (8) controls for salary expenses for employees in Israel (with the exception of senior and very senior employees), (9) controls for actuary calculations for Israeli employees (with the exception of senior and very senior employees) (all of the above together are referred to as the "Audited Control Components")

We have conducted our audit in accordance with Audit Standard 104 According to this standard, we were required to plan the audit and carry it out with the aim of identifying the inspected control components and achieve a reasonable level of certainty as to whether these control components were upheld effectively in all material aspects Our audit included achieving an understanding of the internal controls for financial reporting, evaluation of the risk of the presence of any material weakness in the inspected control components, as well as testing and evaluating those control components based on the evaluated risk Our audit, regarding those control components, also included additional procedures that we believed to be necessary under the circumstances Our audit referred solely to the audited control components, unlike an internal audit on all processes material to financial reporting, and therefore our opinion refers to the audited control components only Furthermore, our audit did not refer to mutual influences between audited and unaudited control components and therefore, our opinion does not bring such negative impacts into account We believe that our audit and the reports of the other CPAs provide an appropriate basis for our opinion in the context described above

Due to their understandable limitations, internal controls over financial reporting in general and components thereof in particular, may fail to prevent or discover misrepresentation Likewise, conclusions regarding the future on the basis of any present effectiveness assessment may be exposed to the risk that the controls become inappropriate due to changes in circumstances or that the application of the policy or the procedures changes to the worse

A material weakness is a failure, or a combination of failures, in the internal controls of financial reporting, to the degree that a reasonable chance exists that material misrepresentation in the Company's yearly or quarterly financial statements is not prevented or discovered in a timely manner

The following material weakness in the audited control components were identified and had been included in the Board of Directors' and management's estimates The company did not fulfill an effective control in the processes relating to approval and disclosure of the service and employment terms of the outgoing CEO, Mr Haim Romano and other executives in the company These should be approved by the authorized institutions as required according to the relevant law

The material weakness in question was taken into account when setting the nature, timing and scope of auditing procedures applied in our auditing of the Company's Consolidated Financial Statements for December 31 2010 and the year ending that date, and this report does not impact our report on the Financial Statements in question

In our opinion, due to the influence of the material weakness identified above on the achievement of the control goals, the Company has not upheld in an effective manner its audited control components as of December 31 2010
We have also conducted an audit, in accordance with generally accepted Israeli auditing standards, the Company's Consolidated Financial Statements for December 31 2010 and 2009 and for each of the three years of the period ending December 31 2010 and our report, published March 22 2011, includes our unreserved opinion of those Financial Statements based on our audit and on the reports of the other auditing accountants

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, March 30, 2011

Deloitte.
בריטמן אלמגור זהר

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 2010 and 2009 and the Consolidated Balance Sheets as of those dates, and the Statements of Operations, Statement of Comprehensive Income, Changes in Shareholders' Equity and Cash Flow for each of the three years in the period ended December 31, 2010 The Company's Board of Directors and management are responsible for these Financial Statements Our responsibility is to express our opinion of these Financial Statements on the basis of our audit

We did not audit the financial statements of consolidated subsidiaries, the assets of which included in the consolidation represent approximately 1 3% and 1 3 of total consolidated assets as of December 31 2010 and 2009, and whose revenues included in consolidation constitute 1 0%, 1 1% and 1 0% of total consolidated revenues for the years ending December 31 2010, 2009 and 2008, respectively The Financial Statements of said companies have been audited by other CPAs the reports of whom have been provided to us and our opinion, inasmuch as it refers to sums consolidated for the aforementioned companies, is based on the reports by these other CPAs

We have conducted our audit according to generally accepted Israeli auditing standards, including regulations included in the Accountants' Regulations (The Accountant's Method of Operation), 1973 Those Standards require that we plan and perform the audit with the aim of obtaining reasonable assurance that the Financial Statements are free of material misrepresentations An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements The audit also contains an examination of the accounting rules implemented and of the material estimates made by the Company's Board of Directors and management, as well as an evaluation of the propriety of presentation on the Financial Statements as a whole We believe that our audit and the reports of the other CPAs provide an appropriate basis for our opinion

In our opinion, based on our audits and the reports of other accountants, the Financial Statements referred to above adequately reflect, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2010 and 2009 and the results of their operations, changes to their equity and their cash flows for each of the three years in the period ending December 31, 2010, in accordance with the International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Yearly Financial Statements), 2010

We have also audited, in accordance with Audit Standard 104 of the Institute of Certified Public Accountants in Israel "Inspection of Components of Internal Controls for Financial Reporting", components of internal controls of the Company's financial reporting as of December 31 2010, and our March 22 2011 report includes an negative opinion regarding those components due to the existence of a material weakness

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, March 22, 2011

משרד ראשי - תל אביב	משרד רמת-גן	משרד ירושלים	משרד חיפה	משרד באר שבע	משרד אילת
מרכז עזריאלי 1	הרקון 6	שרי ישראל 12	מעלה השחרור 5	פארק תעשיות עומר	המרכז העירוני
תל אביב 67021	רמת גן 52521	ירושלים 94390	ת.ד 5648	בניין 10 ת.ד 1369	ת.ד 583
ת.ד 16593			חיפה 31055	עומר 84965	אילת 88104
תל אביב 61164					
טלפון 03 6085555	טלפון 03 7551500	טלפון 02 5018888	טלפון 04 8607333	טלפון 08 6909500	טלפון 08 6375676
פקס 03-6094022	פקס 03 5759955	פקס 02-5374173	פקס 04-8672528	פקס 08-6909600	פקס 08 6371628
info@deloitte.co.il	info-ramatgan@deloitte.co.il	info-jer@deloitte.co.il	info-haifa@deloitte.co.il	info-beersheva@deloitte.co.il	info-eilat@deloitte.co.il

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El Al Israel Airlines Ltd.

Consolidated Balance Sheets

	Note	As of December 31 2010 Thousands of Dollars	As of December 31 2009 Thousands of Dollars
Assets			
Current Assets			
Cash and cash equivalents	5a	111,002	106,687
Short term deposits	6	63,565	7,933
Restricted deposits	5b	-	7,003
Trade receivables	8	132,960	112,086
Other accounts receivables	9	20,880	16,155
Derivative financial instruments	7,31	42,190	11,206
Prepaid expenses	10	26,995	* 20,395
Inventories	11	18,756	21,947
Total current assets		416,348	303,412
Non-Current Assets			
Bank deposits	13	1,869	1,839
Investment in affiliated companies	15b	693	648
Investments in other companies	14	11,552	1,357
Derivative financial instruments	7,31	4,291	2,255
Fixed assets, net	16	1,231,687	1,312,930
Intangible assets, net	17	7,844	7,504
Prepaid expenses	10	8,121	* 7,056
Assets due to employee benefits	23	38,799	34,501
Total non-current assets		1,304,856	1,368,090
Total assets		1,721,204	1,671,502

(*) restated - see Note 2aa

The accompanying Notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.
Consolidated Balance Sheets

	Note	As of December 31 2010 Thousands of Dollars	As of December 31 2009 Thousands of Dollars
Liabilities and Equity			
Current Liabilities			
Borrowings and current maturities	18	147,587	106,016
Trade payables	19	157,912	128,970
Other payables	20	49,625	54,444
Provisions	27	44,939	57,217
Derivative financial instruments	25,31	2,329	55,643
Employee benefit obligations	23	98,712	81,379
Unearned revenues	24	231,204	204,444
Total current liabilities		732,308	688,113
Non-Current Liabilities			
Loans from financial institutions	22	561,084	704,194
Employee benefit obligations	23	65,590	65,835
Derivative financial instruments	25,31	19,739	20,135
Other payables	20	10,700	13,318
Deferred taxes	28	32,792	5,313
Unearned revenues	24	51,467	50,813
Total non-current liabilities		741,372	859,608
Total liabilities		1,473,680	1,547,721
Shareholders' Equity	30		
Share capital		155,012	155,012
Share premium		28,007	28,007
Capital reserve from transactions with a former controlling shareholder		237,122	237,122
Capital reserve in respect of share-based payment		7,198	6,414
Capital reserve in respect of cash flow hedging		35,082	(30,822)
Accumulated loss		(214,897)	(271,952)
Total shareholders' equity		247,524	123,781
Total liabilities and equity		1,721,204	1,671,502

Amikam Cohen	**Elyezer Shkedi**	**Nissim Malki**
Chairman of the Board of Directors	**Chief Executive Officer**	**Chief Financial Officer**

Certification date of Financial Statements: Ben-Gurion Airport, March 22, 2011

The accompanying Notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.

Consolidated Statements of Operations

	Note	For the Year Ending December 31 2010 Thousands of Dollars	2009 Thousands of Dollars	2008 Thousands of Dollars
Operating revenues	32a	1,972,239	1,655,833	2,096,326
Operating expenses	32b	(1,584,557)	(1,444,250)	(1,776,329)
Gross profit		387,682	211,583	319,997
Selling expenses	32c	(214,755)	(182,962)	(227,573)
General and administrative expenses	32d	(96,153)	(88,562)	(97,103)
Other operating revenues (expenses), net	32e	11,269	(15,027)	(975)
		(299,639)	(286,551)	(325,651)
Operating profit (loss) before financing		88,043	(74,968)	(5,654)
Financing expenses	33	(35,911)	(30,297)	(61,566)
Financing income	34	10,849	3,999	16,969
Financing expenses, net		(25,062)	(26,298)	(44,597)
Company's equity in earnings of affiliates, net of tax		45	442	543
Income (loss) before income taxes		63,026	(100,824)	(49,708)
Tax benefit (income taxes)	28	(5,971)	24,524	7,801
Profit (loss) for the year		57,055	(76,300)	(41,907)
Profit (loss) per 1 NIS NV ordinary share (In USD)				
Basic profit (loss) per share	35	0 12	(0 15)	(0 08)
Diluted profit (loss) per share	35	0 11	(0 15)	(0 08)
Weighted average numbers of shares (in thousands) used in the calculation of profit (loss) per share				
Basic		495,719	495,719	495,719
Diluted		496,793	495,719	495,719

The accompanying Notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.

Consolidated Statement of Comprehensive Income

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
Profit (loss) for the year	57,055	(76,300)	(41,907)
Other comprehensive income (loss)			
Profit (loss) in respect of cash flow hedging, net of tax	65,904	80,783	(119,946)
Other comprehensive income (loss) for the year, net of tax	65,904	80,783	(119,946)
Total comprehensive income (loss) for the year	122,959	4,483	(161,853)

The accompanying Notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.

Consolidated Statement of Changes in Shareholders' Equity

	For the Year Ending December 31 2008						
	Share Capital	Share Premium	Capital Reserve from Transactions with a Former Controlling Shareholder	Capital Reserve in Respect of Share-Based Payment	Capital Reserve in Respect of Cash Flow Hedging	Accumulated Loss	Total
	Thousands of Dollars						
Balance as of January 1, 2008	155,012	28,007	237,122	4,464	8,341	(153,699)	279,247
Yearly loss						(41,907)	(41,907)
Other comprehensive loss for the year					(119,946)		(119,946)
Total comprehensive loss for the year	-	-	-	-	(119,946)	(41,907)	(161,853)
Adjustments due to dividends distributed	-	-	-	-	-	(46)	(46)
Share-based payment	-	-	-	1,316	-	-	1,316
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	1,316	-	(46)	1,270
Total equity as of December 31 2008	155,012	28,007	237,122	5,780	(111,605)	(195,652)	118,664

	For the Year Ending December 31 2009						
	Share Capital	Share Premium	Capital Reserve from Transactions with a Former Controlling Shareholder	Capital Reserve in Respect of Share-Based Payment	Capital Reserve in Respect of Cash Flow Hedging	Accumulated Loss	Total
	Thousands of Dollars						
Balance as of January 1 2009	155,012	28,007	237,122	5,780	(111,605)	(195,652)	118,664
Yearly loss						(76,300)	(76,300)
Other comprehensive income for the year					80,783		80,783
Total comprehensive income for the year	-	-	-	-	80,783	(76,300)	4,483
Share-based payment	-	-	-	634	-	-	634
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	634	-	-	634
Total shareholders' equity as of December 31 2009	155,012	28,007	237,122	6,414	(30,822)	(271,952)	123,781

The accompanying Notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.

Consolidated Statement of Changes in Shareholders' Equity

	For the Year Ending December 31 2010						
	Share Capital	Share Premium	Capital Reserve from Transactions with a Former Controlling Shareholder	Capital Reserve in Respect of Share-Based Payment	Capital Reserve in Respect of Cash Flow Hedging	Accumulated Loss	Total
	Thousands of Dollars						
Balance as of January 1 2010	155,012	28,007	237,122	6,414	(30,822)	(271,952)	123,781
Yearly profit						57,055	57,055
Other comprehensive income for the year					65,904		65,904
Total comprehensive income for the year	-	-	-	-	65,904	57,055	122,959
Share-based payment	-	-	-	784	-	-	784
Total transactions with parent company shareholders pursuant to their position as shareholders	-	-	-	784	-	-	784
Total shareholders' equity as of December 31 2010	155,012	28,007	237,122	7,198	35,082	(214,897)	247,524

The accompanying Notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.

Consolidated Statement of Cash Flow

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
Cash Flows from Operating Activities			
Net profit (loss) for the year	57,055	(76,300)	(41,907)
Appendix A - Adjustments required for presentation of cash flow from operating activities	146,236	98,699	160,782
Cash deriving from operating activities, net	203,291	22,399	118,875
Cash Flow for Investment Operations			
Acquisition of fixed assets (including general engine overhauls and payment on account of aircraft)	(46,548)	(178,679)	(159,580)
Proceeds from the realization of fixed assets	2,802	22,803	9,676
Investment in intangible assets	(3,054)	(1,955)	(5,078)
Realization (investment) in restricted deposits	7,003	145,966	(152,969)
Decrease (increase) in short-term deposits, net	(55,632)	(112)	172,812
Investment in deposits for service providers and long-term	(157)	(176)	(318)
Repayment of deposits for service providers and long-term	354	727	360
Decrease in investments and loans to investee companies, net	-	1,229	-
Cash yield from the sale of affiliate	-	571	-
Cash used for investment activities, net	(95,232)	(9,626)	(135,097)
Cash Flows from (for) Financing Activities			
Receipt of long-term loans from financial institutions	-	113,259	36,000
Repayment of long-term loans from financial institutions	(77,804)	(74,615)	(64,911)
Receipt of other long-term loans	2,568	-	-
Repayment of other long-term loans	(1,596)	(254)	(385)
Payment for loan raising costs	-	(7,159)	-
Increase (decrease) in short-term credit, net	(26,912)	12,083	12,501
Dividends paid	-	-	(3,053)
Cash deriving from (used for) financing activities, net	(103,744)	43,314	(19,848)
Increase (decrease) in cash and cash equivalents	4,315	56,087	(36,070)
Balance of cash and cash equivalents at the beginning of the year	106,687	50,600	86,670
Balance of cash and cash equivalents at the end of the year	111,002	106,687	50,600

The accompanying Notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.

Consolidated Statement of Cash Flow

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
Appendix A -			
Income and expenses not involving cash flows.			
Depreciation and amortization (including disposal of accessories, disused components and consumables used and impairment of fixed and intangible assets)	130,580	160,987	131,098
Adjustment of value of deposits for trade payables and long-term	(98)	7	127
Share of earnings of affiliated companies, less dividends received, net	(45)	(284)	(468)
Deferred taxes, net	6,098	(24,604)	(6,989)
Decrease in liabilities in respect of employee benefits and in provisions	(495)	(18,754)	(17,555)
Net capital gains from realized fixed assets	(672)	(582)	(7,418)
Benefit value of employee share option program	784	634	1,316
Loss (gain) from adjustment of fair value of derivatives recognized in the statement of operations	555	(23,542)	65,087
Decrease in other long-term liabilities	-	-	(168)
Profit from shares and options received for no return	(11,145)	-	-
Revaluation of shares and options received for no return	821	-	-
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(20,874)	(6,040)	37,571
Decrease (increase) in other accounts receivable	(4,725)	4,110	(1,269)
Decrease (increase) in prepaid expenses	(7,665)	2,001	6,840
Decrease (increase) in inventories	3,191	(10,475)	4,509
Increase (decrease) in trade payables	28,942	(1,923)	(33,230)
Increase (decrease) in other payables	(6,430)	12,252	(4,856)
Increase (decrease) in unearned revenues	27,414	4,912	(13,813)
	146,236	98,699	160,782

Appendix B – Payment (Receipt) of Interest, Taxes and Dividends, Classified Under Cash Flow from Operating Activities

	2010	2009	2008
Interest payments	25,138	28,283	35,759
Interest receipts	(2,817)	(1,072)	(10,680)
Tax payments – advances in respect of extraneous expenses	334	203	235
Dividend receipts	(20)	(159)	(76)

The accompanying Notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.

Notes to the Consolidated Financial Statements

Note 1 - General

a. General Description of the Company and its Activities:

EL AL Israel Airlines Ltd (hereafter-"the Company") was incorporated on November 15, 1948 as a state company In 2003 the Company's stock was first offered to the public 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

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

Starting June 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 2010 and 2009, the State holds only 1 1% of the ownership and voting rights in the Company, in addition to the rights derived from the Special State Share it holds

b Definitions:

The Company	-	EL AL Israel Airlines Ltd
The Group	-	The Company and its investee companies
Related parties	-	As defined in IAS 24
Interested parties	-	As defined in the Securities Law, 1968 and regulations thereof
Controlling shareholders	-	As defined in Securities Regulations (Yearly Financial Statements), 2009
CPI	-	The Consumer Price Index, as published by the Central Bureau of Statistics
USD	-	US Dollar
Consolidated companies	-	Companies in which the Company has control (as defined in IAS 27), directly or indirectly, whose financial statements are wholly consolidated with the Company's financial statements
Affiliated companies	-	Companies in which the Company has material influence
Investee companies	-	Consolidated and affiliated companies
Other companies	-	Companies owned by the Group in which the latter has no control, joint control or material influence

c. Failure to Include Separate Financial Information:

In accordance with Regulation 4 of the Periodic and Immediate Reports Regulations, the Company did not include in its periodic report for the year ending December 31 2010 separate financial information as per Regulation 9 c of the regulations in question
The reason due to which no separate information was included was the negligible impact the financial statements of the investee companies have on the Consolidated Financial Statements
The parameters used by the Company in order to establish the impact in question are revenues, profits and cash flows from operating activities of up to 5% of all assets, revenues, profits and cash flows from operating activities in the consolidated statements – accordingly, ignoring the impact of uncommon exceptional occurrences
For information regarding transactions and commitments between the Company and its consolidated companies see Note 40

Note 2 - Principal Accounting Policies

a. Statement Regarding the Implementation of International Financial Reporting Standards (IFRS)

The Group's consolidated financial statements have been compiled in accordance with International Financial Reporting Standards (IFRS) and clarifications thereto issued by the International Accounting Standards Board (IASB)
The principal accounting policies listed below have been consistently applied to all reported periods presented in these Consolidated Financial Statements, except for changes to accounting policies due to application of standards, revised standards and interpretations that have become effective as of the balance sheet date, or applied by way of early adoption, as detailed in Note 3 below

b. The Financial Statements have been prepared in accordance with provisions of the Securities Regulations (Annual Financial Statements), 2010 (hereinafter "Financial Statement Regulations")

c The Company's operational turnover period is 12 months

d. Basis of Preparation of Financial Statements:

These Financial Statements have been prepared on the basis of historical cost except for the following

- The following assets and liabilities, which are measured at fair value financial instruments measured at fair value via gain/loss, derivative financial instruments
- Inventory, presented at cost or net realization value, whichever is lower
- Fixed assets and intangible assets, presented at cost net of accumulated depreciation and amortization or at its recoverable amount, whichever is lower
- Liabilities in respect of employee benefits, as set forth in Note 23

e. Foreign Currency:

(1) Functional and Presentation Currency

The financial statements of each Group company are compiled in the currency of the major economic environment in which it operates (hereinafter "the Functional Currency") For the purpose of financial statement consolidation, the financial standing and results of each Group company are presented in USD, which is the Company's functional currency The Company's Consolidated Financial Statements are presented in USD For exchange rates and changes thereto during the periods presented, see Note 2bb

(2) Translation of Transactions in Currencies other than the Functional Currency

When compiling the financial statements of each Group company, transactions executed in currencies other than said company's functional currency (hereinafter "Foreign Currency") are recorded at the exchange rates effective as of the transaction date Upon each balance sheet date, monetary items denominated in foreign currency are translated using the exchange rate effective as of that date, non-monetary items measured at fair value and denominated in foreign currency are translated using the exchange rate effective as of the date on which fair value is determined, non-monetary items measured at historical cost are translated using the exchange rate effective as of the date of the transaction involving the non-monetary item

(3) Recognition of Exchange Rate Differentials

Exchange rate differentials are recognized in the statement of operations in the period in which they were generated, with the exception of exchange rate differentials for transactions intended to hedge certain foreign currency risks, see Note 2o

f. Consolidated Financial Statements:

The Group's Consolidated Financial Statements include the financial statements of the Company and of entities directly or indirectly controlled by the Company Control exists whenever the Company has the power to direct the financial and operational policies of an investee company in order to derive benefits from its operations

For the sake of consolidation, all inter-company transactions, balances, revenues and expenses are fully eliminated

g. Investments in Affiliated Companies

An affiliated company is an entity in which the Group has material influence and which is not a consolidated company Material influence is the power to participate in decision making with regard to financial and operational policies of the affiliated company, which does not constitute control or joint control of said policies
The results, assets and liabilities of affiliated companies are included in the Company's Consolidated Financial Statements based on the book value method
Gain or loss generated from transactions between the Company or a subsidiary and an affiliated company of the Group is eliminated based on the Group's share of rights in said affiliated company

h. Cash and Cash Equivalents:

Cash and cash equivalents include bank deposits available for immediate withdrawal as well as limited term deposits the use of which is unrestricted and whose term to maturity, at the time of investment, is no greater than three months
Deposits the redemption date of which, on the date of investment in them, exceeds three months and is no greater than one year are classified under short term deposits
Deposits for which limitations exist regarding their use are classified under restricted deposits

i. Inventories

Inventory is presented at the lower of its cost and net realization value The cost of inventory includes all purchasing costs and other cost incurred in getting the inventory to its current location and status
Net realization value represents the estimated sales price over the regular course of business less estimated completion costs and estimated costs required to conduct the sale
Cost is determined using the weighted moving average method

j. Fixed Assets:

(1) General:

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

The Company presents its fixed asset items using the following cost model
Fixed asset items are presented in the balance sheet at cost, net of accumulated amortization and net of accumulated impairment, if any The cost includes the cost of acquiring the asset and also the costs that are attributable directly to bringing asset to the location and state required for the purpose intended by management
On the matter of testing the amortization of fixed assets see Note 21

(2) Amortization of Fixed Assets.

Fixed assets are amortized separately for each component of depreciable fixed asset item having a significant cost relative to the total item cost Amortization is calculated systematically, using the straight line method over the expected useful life of the item components, starting on the date on which the asset is ready for its intended use, accounting for the expected residual value at the end of its useful life
Assets under a financial lease are amortized over their expected useful life on equivalent basis of owned assets, or over the term of the lease, if shorter

The cost of overhauling aircraft engines is recognized as an asset on the balance sheet, amortized over the period of economic benefit expected from said overhaul (based on estimated number of engine hours)

The residual values, depreciation method and useful life span of the asset are reviewed by Company management at the end of each financial year Changes are treated as changes in estimates, on a prospective basis
Gain or loss generated from sale or obsolescence of an asset is determined by the difference between proceeds from its sale and its carrying amount, and is recognized in the statement of operations

The cost of accessories and spare parts included with fixed assets is determined using the weighted moving average method
Accessories and spare parts attributed to a specific fleet are amortized over the average remaining life time of said fleet Accessories and spare parts not attributed to a specific fleet are amortized according to the balance of the average life time of the Company's entire aircraft fleet
Accessories and spare parts with no movement or slow movement are included at depreciated values according to management estimate
Regarding the Company's depreciation rates see Note 16 b 2

(3) Consecutive Costs.

The cost of replacing part of a fixed asset item capable of being reliably estimated is recognized as an increase in carrying amount upon creation, although future economic benefits attributed to the item are expected to flow to the entity Regular maintenance costs are charged to the Statement of Operations upon creation

k. Intangible Assets:

Rights for the use of security equipment are included at their cost to the Company, and are amortized using the straight line method based on the anticipated period of economic use, subject to impairment review The life span estimate and amortization method are reviewed at the end of each fiscal year, with the impact of changes to the estimate treated on a prospective basis
Software is included at its cost to the Company and is amortized using the straight line method based on its expected period of economic use

l. Impairment of Tangible and Intangible Assets:

At each balance sheet date, the Group evaluates the book value of its tangible and intangible assets, excluding inventories, with the aim of establishing whether there are any signs pointing to erosion in the value these assets If any such indications exist, the asset's recoverable amount is estimated in order to determine the impairment loss, if any If the recoverable amount for a single asset cannot be estimated, the Group estimates the recoverable amount of the cash-producing unit to which the asset belongs
The recoverable amount is the assets sales price less cost of sale or its value in use, whichever is higher When estimating the value in use, future cash flows are discounted to their present value using a pre-tax discount rate which reflects the current market estimates for time value of money and for asset-specific risks for which the future cash flow estimate has not been adjusted
If the recoverable amount of an asset (or for a cash-generating unit) is estimated to be lower than its carrying amount, the carrying amount of the asset (or of the cash-generating unit) is depreciated down to its recoverable amount Impairment loss is immediately recognized as an expense in the Statement of Operations
Company management believes that recoverable amounts for aircraft should be studied relative to their depreciated cost after grouping aircraft fleets, and that it is incorrect to review the recoverable amount of each aircraft separately relative to its depreciated cost
The Company, having grouped the aircraft fleets as set forth above, has determined that for each aircraft group, the recoverable amount exceeds the depreciated cost of said aircraft group upon that date
When impairment loss recognized in previous periods is cancelled, the book value of the asset (or of the cash-generating unit) is increased back to the updated estimated recoverable value, but not more that the book value of the asset (or the cash-generating unit) that would have existed if an impairment loss form had not been recognized in for it in previous periods Cancellation of impairment loss is recognized immediately to gain/loss, unless the relevant asset is measured according to a revaluation model In such a case the cancellation of impairment loss is charged directly to gain/loss up to the sum at which the impairment loss recognized in the Statement of Operations in previous periods is derecognized, and the balance of the increase, if any, is charged to Other Comprehensive Income

m. Financial Assets:

(1) General

Financial assets are recognized in the Group balance sheet when the Group becomes party to contractual terms of said instrument

Investment in financial assets is initially recognized at fair value, plus transaction cost, except for financial assets recognized at fair value in the statement of operations, which are first recognized at fair value

The Group's financial assets are categorized according to categories detailed below This categorization depends on the nature and objective of the financial asset and is determined upon initial recognition of said financial assets

- Financial assets measured at fair value via gain/loss,
- Financial assets and depreciated cost

Regarding the influence of the early implementation of IFRS 9 “Financial Instruments” on the Company, see Note 3a
Regarding the influence of the revision to IAS 39 “Financial Instruments Recognition and Measurement”, see Note 3b
Regarding the revision to IFRS 7 "Financial Instruments Disclosures", see Note 3c

A financial asset is a “capital instrument” when it constitutes a non-derivative instrument meeting the definition of “capital” as far as the issuing body is concerned The balance of non-derivative financial instruments is “debt instruments”

(2) Financial Assets Measured at Depreciated Cost

The Group's financial assets in this category include trade receivables, deposits and other accounts receivable at fixed or fixable installments which have no quote on an active market Loans and accounts receivable are measured at depreciated cost using the effective interest method, net of any impairment Interest revenues are recognized using the effective interest method, except for short-term trade receivables and other accounts receivable – when interest amounts to be recognized in respect there of are not material

The effective interest method is the method for calculating the depreciated cost of a debt instrument, as well as for the allocation of interest income across the instrument's life span The effective interest rate is the rate that precisely capitalizes future projected cash flow (including commissions, transaction costs and so on), throughout the debt instrument's life span, or (when appropriate) a shorter period, to the current value of the instrument upon first recognition

(3) Financial Assets Measured at Fair Value in the Statement of Operations

Financial assets are classified as "financial assets measured at fair value in the statement of operations" when such assets are held for trading or when they are designated as financial assets measured at fair value in the statement of operations

A financial asset is classified as held for trade if it is a derivative neither designated nor effective as a hedging instrument

The Group's financial assets under this category include derivative instruments not intended for use as hedging instruments, or which are not effective as such These derivatives include certain derivatives based on the price of jet fuel, on interest rates and on exchange rates which are not designated as hedging instruments

Financial assets measured at fair value in the statement of operations are presented at fair value Any gain or loss due to change in fair value, including due to exchange rates, is recognized in the statement of operations in the period in which the change has occurred

(4) Impairment of Financial Assets

Financial assets, except for those classified as financial assets measured at fair value in the Statement of Operations, are reviewed for indications of impairment upon each balance sheet date Such impairment occurs when there is objective evidence that expected future cash flow from investment in such asset has been negatively impacted due to one or more events which have occurred subsequent to initial recognition of the financial asset

Indications of impairment may include

- Significant financial challenges to the debtor,
- Failure to make current principal or interest payments,
- Expectation that the debtor would become bankrupt or would re-structure their debt

For financial assets presented at depreciated cost, impairment is recognized as equal to the difference between the financial asset's book value and the present value of future cash flow expected from them, discounted using their original effective interest rate

If in a subsequent period, the loss due to impairment of a financial asset decreases, and said decrease is objectively related to an event occurring after recognition of impairment, then the impairment loss previously recognized is reversed, in whole or in part, in the statement of operations Such reversal is limited in amount, so that the carrying amount of investment in the asset upon reversal of impairment loss would not exceed the depreciated cost of the asset as of that date - had no impairment been previously recognized

As for trade receivables their carrying amount is decreased, if necessary, using a provision for doubtful debt The provision is calculated specifically When trade receivables are not collectable, they are written off against the provision account Collection, in subsequent periods, of amounts previously written off is credited against the provision account Changes in carrying amount of the provision account are recognized in the statement of operations

n. Financial Liabilities and Equity Instruments Issued by the Group:

(1) Classification as Financial Liability or Equity Instrument

Non-derivative financial instruments are classified as a financial liability or as an equity instrument, based on the nature of their underlying contractual terms

An equity instrument is any contract indicating a residual right to Group assets, after deduction of all Group liabilities Equity instruments issued by the Company are stated at their issuance proceeds net of expenses directly related to issuance of said instruments

Group financial liabilities are stated and measured based on the following classification

- Financial liabilities measured at fair value in the statement of operations
- Other financial liabilities

(2) Financial Liabilities at Fair Value via Gain/Loss

Group financial liabilities in this category include certain interest rate and exchange rate derivatives not designated as hedging instruments, as well as option warrants for the purchase of Company shares, as set forth above

Financial liabilities measured at fair value in the Statement of Operations are stated at fair value Any gain or loss due to change in fair value is recognized in the statement of operations Transaction costs are charged to the Statement of Operations upon initial recognition

Regarding the revision to IFRS 7 "Financial Instruments Disclosures", see Note 3c

(3) Other Financial Liabilities

Other financial liabilities include credit and loans, trade receivables and other accounts receivable Such liabilities are initially recognized at fair value, net of transaction costs Subsequent to initial recognition, other financial liabilities are measure at depreciated cost using the effective interest method

The effective interest method is a method for calculating the net depreciated cost of a financial liability, and of the allocation of interest income or expenses over the relevant period The effective interest rate is the rate that precisely discounts the projected flow of future cash receipts or payments over the course of the expected life span of the financial liability to its book value, or, as the case may be, for a shorter period

(4) Detraction of Financial Liabilities

A financial liability is only removed when, and only when, it is paid up, meaning when the liability defined in the contract is defrayed, cancelled or expired

Regarding the publication of IFRIC 19 "Removal of Financial Liabilities by Capital Instruments", see Note 3c

o. Derivative Financial Instruments and Hedging Accounting:

(1) General

The Company employs a range of derivative financial instruments to manage exposure to changes in price of jet fuel, interest rates and foreign currency exchange rates
Derivative financial instruments are initially recognized at their fair value upon the contracting date and at each subsequent balance sheet date Changes to the fair value of derivative financial instruments are generally recognized in the statement of operations The timing of recognition in the statement of operations of changes in fair value of derivative financial instruments designated as hedging, when such hedging is effective and meets all conditions for qualifying it as a hedging relationship, depends on the nature and type of hedging, as set forth below

The balance sheet classification of derivative financial instruments is determined based on the contractual term of the derivative financial instruments If the remaining contractual term of the derivative is longer than 12 months, the derivative is stated as a non-current item on the balance sheet, if the remaining term is shorter than 12 months, the derivative is classified as a current item

Regarding the revision to IFRS 7 "Financial Instruments Disclosures", see Note 3c

(2) Hedge Accounting

The Company applies cash flow hedge accounting, and to this end it has designated certain derivative financial instruments in respect of exposure to jet fuel prices and to interest rate changes

In order to hedge jet fuel prices, the Company has entered into multiple transactions in respect of expected fuel purchases for terms of up to 2 years from the balance sheet date

In order to reduce exposure to adjustable interest rates applicable to Company loans, the Company has entered into multiple contracts designated to fix interest rates Interest hedging instruments used by the Company are aligned with repayment schedules of the loans they are designated to hedge in the related periods

In order to reduce exposure do to the USD/NIS exchange rate, the Company conducted several transactions the purpose of which was to hedge several of the Company's expected NIS payroll payments

The hedging relationships are documented by the Company upon contracting the hedging transaction This documentation identifies the hedging instrument, hedged item, hedged risk, hedging strategy applied as well as a review of the fit of this strategy to overall Group policy for each hedge type Furthermore, starting on the start date of the hedge relationship and throughout its existance, the Company documents the degree to which the hedging instrument is effective in offsetting exposure to changes in cash flow due to the hedged risk for the hedged item

The effective portion of changes in value of financial instruments designated as cash flow hedges is immediately recognized in equity under "capital reserve in respect of cash flow hedging", and the non-effective portion is immediately recognized in the statement of operations

Cash flow hedge accounting is discontinued when the hedging instrument expires, is sold or realized or when the hedging relationship no longer meets the minimum hedging conditions Subsequent to discontinuation of hedge accounting, the amounts recognized in shareholders' equity are recognized in the statement of operations when the hedged item or the hedged anticipated transactions are recognized in the Statement of Operations

p. Revenue Recognition Base and Commission Attribution to Agents

(1) Revenues from sale of flight tickets are included as unearned revenues under current liabilities until the service is provided or up to 2 years from the sales date, whichever is earlier

Air passenger revenues also include revenues where the service is provided by the Company, whereas flight tickets are sold by other airlines

Furthermore, air passenger revenues also include revenues due to code sharing agreements with other airlines In such cases, when the service is provided by the other airlines, while the sale is made by the Company, revenues are stated on net basis

Regarding the frequent flyer programs, staring from its Financial Statements for the first quarter of 2009, the Group has applied IFRIC 13 – "customer loyalty programs" Accordingly, service sales transactions in which the Group grants its customers credit awards are treated as multi-component transactions, while allocating and the payment received from the customer to its different components based on the fair value of the credit awards The proceeds charged to bonuses are recognized as income when the points are redeemed and the Company's obligation to provide the service is upheld

(2) Air cargo revenues are charged as revenue in the Statement of Operations when the service is provided

(3) Agent commissions referring to revenues not yet recognized are included in the Financial Statements under "pre-paid expenses", and will be recognized as selling expenses in the Statement of Operations concurrently with revenue recognition

(4) Interest revenues are accumulated periodically, accounting for the principal to be repaid and using the effective interest method

(5) Dividend revenues due to investments are recognized on the date entitlement for dividends are created

q. Engine Maintenance and Refurbishment Expenses:

Engine maintenance and refurbishment expenses (not constituting an overhaul) are recognized in the Statement of Operations upon actual execution of the engine maintenance or refurbishment work

In cases where the Company has entered into agreements of an insurance nature, the Company records expenses as specified in the insurance agreements, and the cost of refurbishment is incurred by the insurer

r. Expenses for Securing Company Services:

Company contribution to government expenses for securing company services are recognized in the statement of operations when incurred, based on the Company's share of said expenses

s Leases

General

Lease agreements are classified as financial leases when terms of the contract transfer all material risk and rewards arising from ownership to the lessee All other leases are classified as operational leases

Financing Lease

In financing lease transactions in which the Group leases assets from a different entity, the Group recognizes the asset on the date of the beginning of the lease at its fair value or the current value of the minimum lease payments, whichever is lower The commitment to provide minimum lease payments to the lessor is presented in the Balance Sheet as a financial liability due to a lease In consecutive periods, current payments are allocated due to the financial lease between the financing component and the liability component, in such a manner that a fixed interest rate is received calculated according to the balance of the liability The part allocated to the financing component is charged to gain/loss

Operating Lease

Rental fee expenses in respect of operational leases (primarily aircraft leases) are recognized based on the straight line method over the term of the lease In lease agreements where no leasing fee, or a reduced leasing fee, is paid at the start of the leasing period and where other benefits are obtained from the lesser, the Company recognizes expenses based on the straight line method for the duration of the lease

t. Provisions

(1) General

Provisions are recognized when the Group has a legal or implied obligation due to a past event, where use of reliably measurable economic resources is expected to discharge said obligation

The amount recognized as a provision reflects management's best estimate of the amount required for settling the current obligation upon the balance sheet date, accounting for risk and uncertainty associated with said obligation When the provision is measured using expected cash flows for settlement of the obligation, the carrying amount of the provision is the present value of expected cash flows

When the amount required to settle the current obligation, in whole or in part, is expected to be reimbursed by a third party, the Group recognized an asset, in respect of said reimbursement, up to the amount of the provision recognized, only when it is virtually certain that such indemnification would be received and when it may be measured reliably

(2) Lawsuits

These Financial Statements include appropriate provisions with regard to lawsuits filed against Group companies which Group management believes would not be rejected or eliminated, although Group companies contest these claims

These lawsuits are treated in accordance with IAS 37 Pursuant to these provisions, provisions are included in respect of claims likely to materialize (probability higher than 50%), which Group management believes, based on advice of legal counsel, to be appropriate to the circumstances of each and every case

u. Share-Based Payments:

Share-based payments to employees, settled using Group equity instruments, are measured at fair value upon their grant date The Group measures, upon the grant date, the fair value of equity instruments granted by using the Black & Scholes model When the granted equity instruments do not vest until employees complete a specified period of service, the Company recognizes the share-based payment agreements in its financial statements over the vesting period against an increase in shareholders' equity, under capital reserve in respect of share-based payment Upon each balance sheet date, the Company estimates the number of equity instruments expected to vest Change in estimate relative to prior periods is recognized in the statement of operations over the remaining vesting period

v. **Taxes on Revenue·**

(1) **General**

Expenses (revenues) in respect of taxes on revenue include all current taxes, as well as total change in deferred tax balances, except for deferred taxes arising from transactions recognized in equity

(2) **Current Taxes**

Current tax expenses are calculated based on taxable income of the Company and consolidated companies during the reported period The taxable income differs from income before taxes, due to inclusion or exclusion of revenue and expense items which are taxable or deductible in different reporting periods, or which are not taxable or deductible Assets and liabilities in respect of current taxes were calculated based on the tax rates and taxation legislation enacted, or effectively enacted, by the balance sheet date

(3) **Deferred Taxes**

Group companies generate deferred taxes in respect of temporary differences between the value of assets and liabilities for tax purposes and their carrying amount in the financial statements The deferred tax balances (assets or liabilities) are calculated using the tax rates expected upon their realization, based on the tax rates and taxation legislation enacted, or effectively enacted, by the balance sheet date Deferred tax liabilities are usually recognized in respect of all temporary differences between the value of assets and liabilities for tax purposes and their carrying amount in the financial statements Deferred tax assets are recognized in respect of all deductible temporary differences up to the amount for which taxable revenue is expected to allow for utilization of the deductible temporary difference

In calculating deferred taxes, taxes which would apply in case of realization of investments in investees are not accounted for, since the Group intends to hold and develop said investments In addition, the Company did not account for deferred taxes for profit distribution in said companies, since dividends are tax exempt

Deferred tax assets and liabilities are stated on an offset basis, when an enforceable legal right exists to offset tax assets against tax liabilities, and when they refer to taxes on revenue imposed by the same tax authority, where the Group intends to settle the tax assets and liabilities on net basis The Company and several consolidated companies are jointly assessed for taxes on revenue, therefore deferred tax assets and deferred tax liabilities of said companies are presented on offset basis

w. **Employee Benefits**

(1) **Post-Employment Benefits**

Post-employment benefits at the Group include pensions, severance pay liability, adjustment pay to executives, redemption of sick pay and certain benefits to Company retirees Some post-employment Company benefits are defined contribution plans and some are defined benefit plans Expenses in respect of Company liability to deposit funds to a defined contribution plan are recognized in the statement of operations upon provision of employment services for which the Company is liable to make said deposit

Expenses in respect of defined benefit plans are recognized in the statement of operations based on the Projected Unit Credit Method, using an actuarial estimation prepared upon each balance sheet date The present value of Company obligations in respect of defined benefit plans is determined by discounting expected future cash flows expected from the plan using market yield of government bonds denominated in the currency in which plan benefits are to be paid, and having a term to maturity approximately equal to the expected plan settlement date

Actuarial gain or loss in excess of 10% over the present value of the obligation in respect of a defined benefit plan and the fair value of plan assets as of the start of the period, whichever is higher, are amortized over the remaining average service duration expected for employees participating in the plan

Company liability in respect of a defined benefit plan, presented on the Company balance sheet includes the present value of the liability in respect of defined benefit, plus actuarial gain (less actuarial loss) yet to be realized, net of the fair value of plan assets

(2) Other Long-Term Employee Benefits

Other long-term employee benefits are benefits expected to be utilized or payable in a period over 12 months from the end of the period in which the service qualifying for the benefit was rendered

Other employee benefits at the Company include the anniversary bonus This benefit is recognized in the Statement of Operations according to the Projected Unit Credit Method, using actuarial estimates prepared upon each balance sheet date The present value of Company obligation in respect of the benefit in question is determined by discounting expected future cash flows expected from the plan using market yields of government bonds denominated in the currency in which benefits are to be paid, and having a term to maturity approximately equal to their expected settlement date

(3) Short-Term Employee Benefits

Short-term employee benefits are benefits expected to be utilized or payable in a period within 12 months from the end of the period in which the service qualifying for the benefit was rendered

Short-term employee benefits at the Company include Company liability in respect of wages, bonuses and paid leave These benefits are recognized in the Statement of Operations when generated The benefits are measured according to the non-capitalized sum the Company projects it will pay for realization of this entitlement The difference between the short-term benefits to which an employee is entitled and the amount paid for them is recognized as a liability

Accumulated entitlement to compensation due to absences shall be classified as short term employee benefits, or as long term employee benefits based on the date on which the employee received the right to the benefit

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

(4) Early Retirement Plans

Company liability in respect of early retirement plans are recognized in the statement of operations when the Company is committed to a formal employment termination plan, including, at least, the site, position and estimated number of employees to be terminated, the benefits to which terminated employees are eligible and the date on which the plan would be executed Furthermore, the time until implementation is complete should be such that material changes to the plan are unlikely The benefit level is determined using the discount rate for government bonds

x. Earnings per Share

The Company calculates basic earnings per share as regards gain or loss, attributed to holders of Company shares by dividing the income or loss attributed to holders of Company ordinary shares by the weighted average number of ordinary shares outstanding during the reported period In order to calculate diluted earnings per share, the Company adjusts the earnings or loss attributed to holders of ordinary shares, and the weighted average number of shares outstanding, for the impact of all potentially dilutive shares

y. Customer Loyalty Programs:

Transactions for the sale of services, wherein the company awards its customers with points, shall be treated as multi-component transactions, and the payment received from the customer will be allocated to its different components based on the fair value of the credit award The proceeds attributed to the award shall be recognized as revenue when the credit awards are cashed and the Company's commitment to supply the awards is upheld

z. Operating Segments

The Company's segment-based reporting is based on information used by the Company's management for the purpose of evaluating the performance of the segments, and for the purpose of reaching decisions on the mode of allocating resources to the various operating segments

to IFRS 8 revised "Operating Segments Disclosure Regarding Segment Assets" states that disclosure is to be provided regarding the measurement of assets of a reportable segment, only if such information is regularly provided to the chief operational decision maker

This Standard shall be applied retroactively to yearly reporting periods starting January 1 2010 or subsequently

In light of this, segment assets were not presented in these Financial Statements

Regarding the reporting on the Company's operating segments in accordance with IFRS 8, see Note 37 below

aa. Presentation of Additional Balance Sheet·

The Company's management has decided not to present an additional balance sheet, despite the fact that it reclassified, as of December 31, 2009, aircraft leasing expenses to the amount of $4,478,000 from current prepaid expenses to non-current prepaid expenses

The Company's management believes that as the above reclassification has a non-material impact on the data reflected in the Balance Sheet as of December 31, 2010, the presentation of an additional report for December 31, 2010 shall be, under the circumstances, irrelevant to the understanding of the Financial Statements and makes no contribution to the users of the Financial Statements for the receipt of financial decisions or for understanding the influence of certain transactions and events on the Company's financial status

bb. Exchange Rates and Linkage Basis

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

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

(3) Below is data on USD exchange rates and the CPI in Israel

	As of December 31		
	2010	2009	2008
Consumer Price Index – in points	117 8	114 7	110 4
USD/NIS exchange rate	3 549	3 775	3 802
USD/EUR exchange rate	0 749	0 694	0 718
USD/Pound Sterling Exchange Rate	0 646	0 618	0 685

Change in %:	For the Year Ended on December 31		
	2010	2009	2008
Consumer Price Index – in points	2 7%	3 9%	3 8%
USD/NIS exchange rate	(6 0%)	(0 7%)	(1 1%)
USD/EUR exchange rate	7 9%	(3 3%)	5 6%
USD/Pound Sterling Exchange Rate	4 5%	(9 9%)	37 4%

Note 3 - New Financial Reporting Standards and Clarifications Published

a. New standards and interpretations impacting the current period and/or previous reported periods:

- **Early adoption of IFRS 9 "Financial Instruments"**

The Company has decided upon the early adoption of the first stage of IFRS 9 "Financial Instruments", starting from 2010, regarding financial assets In addition, the Group named January 1, 2010 as the start date for the standard's application

The standard is implemented retroactively In accordance with the standard's transitional directives, the Company has chosen not to match comparison data for previous periods

The standard details the manner in which the Company has to classify and measure its financial assets According to the standard, financial assets shall be classified as a whole according to the basis of the business model of the Company's management regarding those assets and on the basis of their contractual terms, as financial assets measured at fair value or depreciated cost

Accordingly, debt instruments shall be measured after first recognition at depreciated cost when (1) the Company's business model is to hold the assets with the aim of collecting contractual cash flows and (2) the contractual conditions of the asset set precise dates on which contractual cash flows consisting only principal and interest payments, are received

In the event that one of the two conditions above is not upheld, the asset shall be classified as a financial asset at fair value via profit & loss

In addition, even in the event that both of the above conditions are upheld, according to the standard the Company may, upon first recognition of the asset, designate the asset at fair value via profit & loss, if this designation significantly reduces accounting mismatch

In accordance with IFRS 9, derivatives embedded in financial assets covered by this standard are not separated from the host contract

Investments in capital instruments are classified and measured at fair value via profit & loss, except when these assets are not held for trade and the Company has designated these assets at fair value via other comprehensive income Profits or losses deriving from financial assets designated at fair value via other comprehensive income are recognized as other comprehensive income and are not classified to profit and loss in subsequent periods Dividends received for investments in capital instruments, including capital instruments designated at fair value via other comprehensive income, are recognized as revenue in profit & loss

On the standard's start date, the Company reviewed its financial instruments in existence as of that date As a result

1 It was tested and found that all debt instruments held by the Company are in compliance with terms according to which they can be presented as assets measured at depreciated cost

2 The Company's investment in capital instruments were classified at fair value via profit & loss

Publication of the Second Stage of IFRS 9 Regarding Financial Liabilities

In accordance with the standard's transitional directives, the Company has chosen not to adopt the second stage of the standard in the matter of financial liabilities

Regarding the implementation of the Standard in relation to the Maman Deal, see Notes 14 and 39a

b. New standards and clarifications, already in effect, that have no material impact on the current period and/or on previous reporting periods.

- **IAS 17 (Revision) "Leases"**

  As part of the 2009 yearly improvement project, IAS 17 "Leases" was amended

  IAS 17 "Leases" states that land leases shall be classified as financial leases or operational leases using the general principles of the standard, taking into account that land is an asset with an infinite financial lifespan Pursuant to the revision the general prohibition of classifying land leases as financial leases when the land does not pass on to the lessee at the end of lease period
  The revision shall apply retroactively to yearly reporting periods starting January 1 2010
  The revision shall be applied retroactively to existing leases when the required information is available at the beginning of the lease When the required information is not available, land leases shall be reexamined on the date the revision is adopted

- **IAS 39 (Revision) "Financial Instruments: Recognition and Measurement" (regarding the designation of exposure to inflationary risks as hedging items"**

  This revision states, among other things, that changes in cash flows deriving from exposure to inflationary risk can be designated as hedging items In addition the revision states that the internal value, unlike the time value of options purchased, is fit to serve as a hedging item of one side deriving from a projected transaction The revision is applied retroactively to yearly reporting periods starting January 1, 2010, or subsequently

c. New standards and clarifications that have been published and are not in effect, and which have not been adopted by the Group by way of early adaptation, which are expected to haveor may have an impact on future periods:

- **IFRIC 19 "Removal of Financial Liabilities by Capital Instruments"**

  The interpretation establishes the accounting treatment regarding the removal of financial liabilities by issuing capital instruments The interpretation established that in the event of such an occurrence, the liability shall be subtracted when the difference between its book value on the clearance date and the fair value paid, measured at the height of the fair value of the capital instruments issued, shall be charged to the Statement of Operations
  This interpretation shall be applied retroactively to yearly reporting periods starting January 1, 2011, or subsequently Early application is possible
  At this stage the Company cannot estimate the impact of application of this interpretation on its financial status and operating results

- **IFRIC 14 (Revision) "Advance Payments on Account of Minimal Deposit Requirements"**

  This Amendment states that when measuring a plan's assets as regards a defined benefit plan, advance payments on account of minimal deposit requirements shall be included as part of the economic benefits available in the form of refunds from the plans or as a reduction in future deposits to the plan This interpretation shall be applied retroactively to yearly reporting periods starting January 1, 2011, or subsequently
  At this stage the Company cannot assess the impact of application of this interpretation on its financial status and operating results

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

  The revision includes demands regarding the entity's exposure to risk due to financial asset transfer transactions in which the transferring party retains a certain level of continuing exposure to the asset ("continuous involvement"), and regarding financial asset transfer transactions subtracted fully, carried out near the end of the reported period

The amendment applies on a prospective basis to yearly periods starting January 1, 2012 Early application is possible The new disclosure is not required for reporting periods applying before the revision's first implementation

- **IAS 1 (Revised) "Presentation of Financial Statements" – Clarifications Regarding the Statement of Changes in Shareholders' Equity.**

  The revision establishes that other comprehensive income items shall be presented in the Statement of Changes in Shareholders' Equity or as part of the Notes, according to the company's accounting policy Accordingly, companies can choose whether to present the details of the other comprehensive income items charged directly to the shareholders' equity over the course of the presented reporting periods in the Statement of Changes in Shareholders' Equity or in the Notes This Standard shall be applied retroactively to yearly reporting periods starting January 1, 2011 or subsequently

Note 4 - Critical Accounting Considerations and Key Sources for Estimates of Uncertainties

a. General

In applying Group accounting policy, as set forth in Note 2 above, Company management is sometimes required to exercise considerable judgment with regard to estimates and assumptions about the book value of assets and liabilities, which may not be available from other sources These estimates and related assumptions are based on past experience and other factors deemed relevant Actual results may differ from these estimates

Estimates and underlying assumptions are regularly reviewed by management Changes in accounting estimates are only recognized in the period in which a change was made to the estimate, if the change only affects that period, or are recognized in said period and in subsequent periods in cases where the change affects both the current period and the subsequent periods

b. Critical Accounting Considerations and Key Sources for Estimates of Uncertainties

(1) Provisions for Legal Proceedings

As of December 31, 2010, claims pending against the Company amount to a total of $151 million In addition, there are claims not quantified in monetary terms A provision was made in respect of some of these claims to the amount of $7 4 million (the aforementioned claims and provisions exclude tax assessments issued to the Company – see sub-section 2 below) In order to review of the legal validity of the aforementioned claims, as well as to determine the probability of their realization to the Company's detriment, Company management relies on the opinion of legal and professional counsel After the Company's counsel have formed their legal opinion and the Company's probability with regard to the claim subject, whether the Company would have to bear its outcome or may postpone it, Company management estimates the amount to be included in the financial statements, if any Interpretation by the Company of the current legal position which differs from that of its legal counsel, different understanding by Company management of contracts as well as changes due to applicable legislation or addition of new facts – all may impact the value of the overall provision for legal proceedings pending against the Company, thereby materially impacting its financial standing and operating results

(2) Income Tax and Social Security

The Company has tax assessments for which the tax results are uncertain The Company recognized liabilities in respect of tax results of these transactions, based on management estimates, which rely on professional counsel with regard to the timing and amount of the tax liability which may arise from them When the tax consequence of such transactions differ from management's estimates, tax expenses will differ upon the determination of the final assessment (see Note 28 f regarding a settlement with the tax authorities)

(3) Employee Benefits

The present value of the Company's severance pay liability, as well as that of a pension plan and other employee benefits, is based on multiple data determined based on actuarial estimate, using multiple assumptions, including with regard to the discount rate Changes in actuarial assumptions may impact the carrying amount of the Company's severance pay and pension liabilities The Company estimates the discount rate annually, based on the discount rate for government bonds Other key assumptions are made based on prevailing market conditions, as well as on the Company's past experience For further details of assumptions made by the Company, see Note 23

(4) Aircraft Impairment

As set forth in Note 2 l above, for any aircraft fleet where indications of impairment exist, the Company estimates the recoverable amount for said fleet The recoverable sum is sales price of the aircraft or its use value, whichever is higher In estimating use value, the Company estimates future cash flows and deducts them to their current value using a discount rate reflecting current market estimates In this framework the Company relied on projections pertaining to, among other things, expected scopes of activity, prices of flight tickets and bills of lading, operating costs and future interest rates Material changes to these estimates, or part thereof, may impact the recoverable amount of said aircraft

(5) Frequent Flyer Clubs

As stated in Note 2 q (1) for establishing the balance of unearned revenues for frequent flyer points accumulated as of the report date and yet unused, the Company based its calculations on the sales prices of frequent flyer points to business partners (after adjustments) and on the Company's experience on the matter of point usage projections
Changes in management estimates regarding point values may impact the Company's revenues

(6) Useful lifespan of Fixed Assets

Company aircraft are amortized throughout their useful lifespan As stated in Note 2 j, Company Management studies the useful lifespan of all fixed asset items each yearly reporting period
Actual changes in the balance of useful lifespan will lead to changes in impairment rates

(7) Fair Value of Financial Instruments

The Company presents derivative financial instruments at fair value As stated in Note 2 o, the fair value of financial instruments classified as first grade is based on the use of prices quoted in active markets, the fair value of financial instruments classified as second grade is based on the use of observed data, direct or indirect, while the fair value of financial instruments classified as third grade is based on the use of data not based on observed market data, see Note 31 m

Note 5 - Cash and Cash Equivalents

a. Composition.

	As of December 31	
	2010	**2009**
	Thousands of Dollars	
Cash and bank balances	36,061	1,416
Short term deposits	74,941	105,271
Total cash and cash equivalents	111,002	106,687

b. Restricted Deposits

	As of December 31	
	2010	2009
	Thousands of Dollars	
Restricted deposits in favor of jet fuel hedging transactions	-	7,003

As of December 31, 2010 the fair value of jet fuel hedging transactions was positive, and therefore no restricted deposits existed

Note 6 - Short-Term Deposits

a. Composition:

	As of December 31	
	2010	2009
	Thousands of Dollars	
Short term bank deposits	63,565	7,933

b. As of December 31, 2010 – an NIS deposit worth $8,565 thousand (including accrued interest) deriving from the proceeds of option (Series 1) exercises received by the Company, greater than the sum of the "deficit" in the compensation fund of the entitled employees – as stated in Note 23 c 3 b (as of December 31, 2009 the deposit in question amounted to $7,933 thousand)

The Company is studying the existence of limitations regarding its ability to make use of the above balance of the proceeds according to the agreement with the State and with the workers' representatives The Company approached the General Controller of the Ministry of Finance on this matter As of the publication of the Financial Statements negotiations are taking place with the General Controller's Office at the Ministry of Finance in order to examine entitlement to the surpluses of the issue The negotiations have yet to come to a conclusion Until the matter is resolved, the deposit is presented against an obligation to the State of Israel

Note 7 - Derivative Financial Assets

a. Composition·

	Current Assets		Non-Current Assets		Total Assets	
	As of December 31		As of December 31		As of December 31	
	2010	2009	2010	2009	2010	2009
			Thousands of Dollars			
Derivative financial instruments, designated as hedging items.						
Jet fuel hedging transactions	30,020	6,469	4,291	2,255	34,311	8,724
Forward transactions for the purchase of foreign currency	12,170	4,737	-	-	12,170	4,737
	42,190	11,206	4,291	2,255	46,481	13,461

b. See note 25 below regarding derivative financial liabilities

c. See Note 31 below regarding financial instruments and projected exercise dates of the financial assets

Note 8 - Trade Receivables

a. Composition:

	As of December 31	
	2010	2009
	Thousands of Dollars	
Open accounts	103,963	85,761
Credit card companies	18,380	15,422
Airlines (see 1 below)	13,035	13,162
	135,378	114,345
Less - provision for doubtful debt	(2,418)	(2,259)
	132,960	112,086

1. Most accounts between airlines are settled through the International Air Transport Association (IATA) clearing system

2. Total trade receivable debts (less provisions for doubtful debts) to the Group as of December 31 2010 amounted to a total of $132,960 thousand (as of December 31, 2009 a total of $112,086 thousand), and included the sums presented above
The average credit for Company services provided is 27 days (in 2009 27 days) Group customers are not required to pay interest for this period
The Group has, in general, several types of trade receivables in Israel and abroad IATA agents, non-IATA agents and business customers The credit rating of IATA agents is determined in accordance with parameters set by the Israel Airline Panel, BSP overseas and CASS as regards cargo The bodies in question require collateral or guarantees for these agents in accordance with the credit quality of each trade receivable In addition, the Company holds insurance for the credit risk of IATA agents in Israel This insurance does not cover all the Company's exposure to credit risk At the same time, according to the Company's estimates this risk is low As of non-IATA agents, the Company requires guarantees and/or collateral, while for its business customers the Company holds credit risk insurance
On June 1, 2010 the Company joined the BSP (Billing & Settlement Plan), the IATA clearing program This shift to the world's most widely-used payment system constitutes a technological innovation and was designed to streamline and simplify the sales, reporting and accounting process for airline companies in dealing with travel agents, and allows better control and supervision of the airlines' cash flow
The balance of Group trade receivables as of December 31, 2010 includes a total of $5,021 thousand of which their repayment date has passed (as of December 31, 2009 $3,121 thousand), but the Group, based on its past experience and on the payables' credit rating, has not made a provision to doubtful debts for them, as in its opinion they are collectable The Group does not hold collateral for these debts

   The average debt period of trade receivable debts of which their repayment date has passed as of December 31, 2010 is 46 days (as of December 31, 2009 – 55 days)

b. Age of customer debts deviating from credit days established for which no provision to doubtful debts has been included:

	As of December 31	
	2010	2009
	Thousands of Dollars	
0-30 days	2,832	1,126
31-60 days	422	710
61-90 days	159	150
Over 90 days	1,608	1,135
Total	5,021	3,121

c. Movement in the provision for doubtful debts:

	As of December 31	
	2010	2009
	Thousands of Dollars	
Balance at the beginning of the year	2,259	1,498
Loss from impairment due to receivables	429	1,423
Amounts of doubtful debts written off	(163)	(523)
Amounts recouped during the year	(107)	(139)
Balance at the end of the year	2,418	2,259

In determining the likelihood of payment of customer debts, the Group reviews changes in customer credit quality from when the credit was granted through the reporting date Concentration of credit risks is limited in light of the large customer basis and its distribution into various branches and geographical regions

d. Age of trade receivable debts for which a provision for doubtful debts was made·

	As of December 31	
	2010	2009
	Thousands of Dollars	
0-30 days	8	83
31-60 days	6	149
61-90 days	23	50
Over 90 days	2,381	1,977
Total	2,418	2,259

Note 9- Other Receivables

Composition:

	As of December 31	
	2010	2009
	Thousands of Dollars	
Government institutions	2,731	4,476
Receivables due to renovation of leased engines	1,526	2,391
Receivables due to jet fuel hedging transactions	3,095	-
Other receivables	13,528	9,288
Total	20,880	16,155

Note 10 - Prepaid Expenses

Composition:

Current

	As of December 31	
	2010	2009
	Thousands of Dollars	
Unused flight tickets commissions	16,913	15,587
Frequent flyer point commissions	1,501	1,477
Aircraft leases	4,631	* -
Others	3,950	3,331
Total	26,995	20,395

Non-Current

	As of December 31	
	2010	2009
	Thousands of Dollars	
Frequent flyer point commissions	2,462	2,578
Aircraft leases	5,659	* 4,478
Total	8,121	7,056

*Restated - see Note 2 aa

Note 11 - Inventory

Composition:

	As of December 31	
	2010	2009
	Thousands of Dollars	
Jet fuel for consumption	10,248	13,282
Materials and foodstuff	5,278	4,619
Chemicals	3,068	3,211
Other	162	835
Total	18,756	21,947

Note 12 - Linkage Conditions – Assets

Current assets - distribution by linkage conditions:

	As of December 31	
	2010	2009
	Thousands of Dollars	
Monetary items		
In USD or linked	281,882	193,926
In Israeli currency (NIS)	43,826	23,389
In or linked to Euro	20,060	18,541
Other foreign currency or linked to it	24,829	20,736
	370,597	256,592
Non-monetary items	45,751	46,820
Total	416,348	303,412

Non-current assets - distribution by linkage conditions:

	As of December 31	
	2010	2009
	Thousands of Dollars	
Monetary items		
In USD or linked	5,662	8,208
In Israeli currency (NIS)	50,849	36,222
	56,511	44,430
Non-monetary items	1,248,345	1,323,660
Total	1,304,856	1,368,090

Note 13 - Long-Term Bank Deposits

	As of December 31	
	2010	2009
	Thousands of Dollars	
Bank deposits in NIS, unlinked	1,869	1,839
Interest Rates	1 7-2 4	1 7-2 1

The unlinked NIS bank deposits as of December 31, 2010 and December 31, 2009 are used as collateral for the repayment of bank loans received by Company employees The deposits have no predetermined redemption date

Note 14 - Investments in Other Companies

	As of December 31	
	2010	2009
	Thousands of Dollars	
Investment in Maman (1)	10,324	-
Investment SITA (2)	1,228	1,357
	11,552	1,357

1 The investment in Cargo Terminals and Handling Ltd ("Maman") is presented at fair value
As of December 31, 2010 the Company holds 2,837,837 ordinary shares, worth 1 NIS NV each, constituting 7 5% of Maman's issued and paid-up share capital (value as of December 31, 2010 is $5,964 thousand) In addition, the Company holds options exercisable to ordinary shares at a rate close to 10% of Maman's issued and paid-up share capital (value as of December 31, 2010 is $4,360 thousand) For further details, see Note 39 a

2. Investment in SITA - Societe Internationale de Telcommunications Aeronautiques ("SITA") SITA is a cooperative non-profit association of airlines and related bodies intended mainly to provide international communications services to airlines and other factors
As of December 31, 2010, the Company held 26 shares worth €5 NV each, constituting 0 4% of SITA's share capital

Note 15 - Investment in Subsidiaries

a. Subsidiaries:

The Group's subsidiaries:

Company name	Country of Incorporation	Holding Rate in the Rights of the Capital of Subsidiary		Extant of Investment in Subsidiary (*)	
		As of December 31		As of December 31	
		2010	2009	2010	2009
		%	%	Thousands of Dollars	
Held Directly					
Tamam (1)	Israel	100%	100%	756	1,617
Borenstein (2)	USA	100%	100%	4,491	4,367
Superstar (3)	UK	100%	100%	(65)	(32)
Sun D'Or (4)	Israel	100%	100%	3	3
Katit (5)	Israel	100%	100%	-	-

(*) The extent of the investment in a company held directly is calculated as a net sum based on the consolidated statements, charged to the shareholders of the parent corporation, of total assets less total liabilities, plus loans given subsidiaries

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

Tamam is primarily engaged in the production and supply of prepared kosher meals for airlines Most of Tamam's sales are 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
Tamam's plant is located at Ben Gurion Airport In accordance with its agreement with the Israel Airports Authority ("IAA"), it may use the area owned by IAA in exchange for agreed-upon authorization fees based on Tamam's turnover
Following the opening of BGN 2000, Tamam estimates that it will have to relocate its plant from its present location and move to a new location This move is not expected to occur prior to 2015

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

Borenstein, a fully owned subsidiary, is a US corporation operating out of New York's JFK, and is mostly engaged in the production and delivery of prepared kosher meals for airlines and other institutions, with the Company being its main customer, holding all of its shares
The investment in Borenstein in 2010 is after offsetting dividends received in 2010 to the amount of $20 thousand

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

Superstar – a company registered in England and Wales and fully owned by the Company, serving as a tourism wholesaler, marketing tourism packages as well as airline tickets to travel agents and individual travelers
Superstar has a branch in Israel, as well as branches in several cities abroad

In October 2010 El Al provided Superstar with a £110 thousand loan This loan bears no interest

The investment as of December 31, 2010 includes loans to Superstar to the amount of $488 thousand (a loan to the amount of $322 thousand as of December 31, 2009) These loans are in pounds sterling and bear no interest

(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 commissions

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

Over the course of 2009 and 2010 the Company was appointed designated carrier to various European destinations

According to the method used by the two companies to settle their accounts, Sun D'Or breaks even at the end of each year

Regarding the announcement made by the Civil Aviation Authority to Sun D'Or regarding the revocation of its operating license, see Note 42 i

(5) Katit Ltd. ("Katit")

Katit is a fully-owned subsidiary Company that operates several restaurants for Company employees at Ben Gurion Airport, commissaries in the Company's office buildings and the King David Lounge at BGN

In return for the services Katit provides the Company, the Company covers the surplus of operating costs over expenses created by Katit at any time

b. Affiliated companies:

The Group's affiliated companies·

Name of Affiliate	Country of Incorp-oration	Holding Rate in Share Capital of Affiliate		Extant of Investment in Affiliated Company (*)	
		As of December 31		As of December 31	
		2010	2009	2010	2009
		%	%	Thousands of Dollars	
Included Directly					
Air Tour (1)	Israel	50%	50%	13	13
ACI (2)	Israel	50%	50%	4	4
Kavei Chufsha Ltd (3)	Israel	20%	20%	676	631
				693	648

(*) The extent of the investment in a company held directly is calculated as a net sum based on the consolidated statements, charged to the shareholders of the parent corporation, of total assets less total liabilities, plus loans given to affiliates, and plus the portion of the dividends received from them

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

The company mainly deals in the marketing of El Al flights and special promotions to all El Al destinations

The shares of Air Tour are held by Israeli travel agents (50%) in Type A of ordinary shares and by the Company (50%) in Type B of ordinary shares Air Tour markets the Company's flights and special promotions 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

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

ACI is primarily engaged in the consolidation of air cargo at BGN 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

3. Kavei Chufsha Ltd. ("Kavei Chufsha")

The main area of activity of Kavei Chufsha is the marketing and sale of charter flights to and from Israel and providing associated tourism services Company sales are to individuals, groups and agents
The investment in Kavei Chufsha is after offsetting dividends received from Kavei Chufsha to the amount of $159 thousand in 2009

Composition of the investment in affiliates:

	As of December 31 2010	As of December 31 2009
	Thousands of Dollars	
Investment in shares		
Cost of shares	57	57
Portion of profits accumulated from purchase date, net	636	591
Total investment in affiliated companies	693	648

Note 16 - Fixed Assets

a. Composition:

	Buildings and Facilities[1]	Aircraft and Aviation Equipment [2]	Payments On Account of Aircraft and Engines[3]	Machinery And Ground Equipment	Computers and Office Furniture	Vehicles and Workshop Equipment	Total
	Thousands of Dollars						
Cost							
As of January 1, 2010	106,597	2,355,741	14,097	60,197	128,598	7,830	2,673,060
Reclassification	-	-	(1,491)	-	-	-	(1,491)
Additions	3,936	32,090	1,920	2,927	5,278	397	46,548
Disposals	-	(67,132)	-	(1,302)	-	(42)	(68,476)
As of December 31, 2010	110,533	2,320,699	14,526	61,822	133,876	8,185	2,649,641
Accumulated depreciation							
As of January 1, 2010	74,602	1,104,292	-	53,447	120,535	7,254	1,360,130
Annual depreciation	2,798	95,092	-	1,852	4,971	620	105,333
Disposals	-	(46,251)	-	(1,216)	-	(42)	(47,509)
As of December 31, 2010	77,400	1,153,133	-	54,083	125,506	7,832	1,417,954

	Buildings and Facilities(1)	Aircraft and Aviation Equipment (2)	Payments On Account of Aircraft and Engines(3)	Machinery And Ground Equipment	Computers and Office Furniture	Vehicles and Workshop Equipment	Total
	Thousands of Dollars						
Depreciated Cost: As of December 31, 2010	33,133	1,167,566	14,526	7,739	8,370	353	1,231,687
Cost							
As of January 1, 2009	103,722	2,428,315	36,181	59,728	123,916	7,821	2,759,683
Reclassification	-	22,240	(22,240)	-	-	-	-
Additions	2,875	169,231	156	1,726	4,682	9	178,679
Disposals	-	(264,045)	-	(1,257)	-	-	(265,302)
As of December 31, 2009	106,597	2,355,741	14,097	60,197	128,598	7,830	2,673,060
Accumulated depreciation							
As of January 1, 2009	72,177	1,198,567	-	52,497	115,299	6,961	1,445,501
Annual depreciation	2,425	112,498	-	2,207	5,236	293	122,659
Disposals	-	(206,773)	-	(1,257)	-	-	(208,030)
As of December 31, 2009	74,602	1,104,292	-	53,447	120,535	7,254	1,360,130
Depreciated Cost: As of December 31, 2009	31,995	1,251,449	14,097	6,750	8,063	576	1,312,930
Annual depreciation rate	4%-10%	(See b 2)	-	5%-20% (mainly 10%)	5%-33% (mainly 33%)	10%-20% (mainly 15%)	

(1) See j below
(2) See b below
(3) See c below

b Boeing aircrafts and aviation equipment:

1. Composition:

Quantity	Aircraft Fleet and Model	2010 Cost	2010 Accumulated Depreciation	2010 Balance	2009 Cost	2009 Accumulated Depreciation	2009 Balance
As of December 31 2010		Thousands of Dollars					
	747-400						
5	Passenger aircrafts	472,366	278,343	194,023	472,366	252,314	220,052
	Spare engines	6,600	4,869	1,731	6,600	4,563	2,037
	Engine overhauls	85,680	38,640	47,040	85,680	38,640	47,040
		564,646	321,852	242,794	564,646	295,517	269,129
	747-200F						
1	Cargo aircrafts	83,824	83,824	-	83,824	83,824	-
	Spare engines	17,481	17,481	-	17,481	17,481	-
	Engine overhauls	21,884	18,557	3,327	40,784	30,699	10,085
		123,189	119,862	3,327	142,089	132,004	10,085
	757-200						
3	Passenger aircrafts	108,543	87,936	20,607	108,543	83,269	25,274
	Engine overhauls	24,402	10,498	13,904	27,802	10,838	16,964
		132,945	98,434	34,511	136,345	94,107	42,238
	*** 737-700/800**						
8	*** Passenger aircrafts	272,569	65,561	207,008	272,569	56,867	215,702
	Spare engines	6,390	2,998	3,392	6,390	2,721	3,669
	Engine overhauls	42,021	17,224	24,797	40,155	11,456	28,699
		320,980	85,783	235,197	319,114	71,044	248,070
	767						
4	200ER (passenger aircrafts)	156,377	136,496	19,881	156,377	131,127	25,250
	Spare engines	1,649	1,217	432	1,649	1,141	508
	Engine overhauls	36,708	21,013	15,695	57,008	38,037	18,971
		194,734	158,726	36,008	215,034	170,305	44,729
	***** 777-200**						
6	Passenger aircrafts	667,019	176,084	490,935	665,703	153,298	512,405
	Spare engines	21,157	7,414	13,743	21,157	6,330	14,827
	Engine overhauls	67,030	33,515	33,515	67,030	33,515	33,515
		755,206	217,013	538,193	753,890	193,143	560,747
27		2,091,700	1,001,670	1,090,030	2,131,118	956,120	1,174,998
Accessories and spare parts - general		228,999	151,463	77,536	224,623	148,172	76,451
		2,320,699	1,153,133	1,167,566	2,355,741	1,104,292	1,251,449

* Includes three aircrafts in financing leases – see Note 16 d 3

** Including the cost of investments in leased aircrafts via operational lease to the amount of $2 8 million, deducted across the lease period

*** Including three leased aircrafts via financial lease – see Notes 16 d 1 and 16 d 2.

2. Depreciation Rates:

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

The following are depreciation rates for Company aircrafts relative to cost (after deduction of residual value) for the year 2010

Aircraft	Average Annual Depreciation Rate
737	5 2%
747-400	7 4%
757	5 7%
767	4 2%
777	5 1%

As of December 31, 2010, the balance of years remaining for the Company's aircraft fleet is between one and eighteen years

The annual depreciation rate of the spare engines (engine body) was determined according to the average number of years remaining for the 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, 2010, the balance of years remaining for general engine overhauls ranges between 5 months and 8 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 according to the average remaining life span of the entire Company fleet

c. Payments on Account of Aircraft and Aviation Equipment – Composition:

	As of December 31	
	2010	2009
	Thousands of Dollars	
Advance payment for the purchase of four 777-200 aircrafts, see Note 16 e 1	-	10,606
Payment for the option to purchase two 777-200 aircrafts, see Note 16 e 1	-	2,000
Advance payment on account of the future purchase of aircrafts from Boeing, see Note 16 e 1	13,526	-
Advance payment for the purchase of a 747-400 aircraft from RBS, see Note 42 e	1,000	-
Others	-	1,491
	14,526	14,097

As part of its equipping plan in November 2010 the Company made an initial deposit with Boeing (see Note 16 e 1 (c))

d. Aircraft under financing leases·

1 In June 2002, the Company received and operated a fourth 777-200 aircraft
The aircraft, which 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 Citibank
The Company has an option to acquire this plane at the end of the loan-repayment period for $1 00

The aircraft is included in the Financial Statements under Company fixed assets (depreciated throughout the economic enjoyment period expected from it) against the listing of a long term liability due to the loan received from Citibank to finance most of the cost of the aircraft

2 In July and August 2007, the Company received and operated two new 777-200 aircraft (the 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 was established in Delaware (hereafter "the Foreign Company") 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 "the Trustee")

Liens were placed on the shares of the Foreign Company in favor of the Trustee Liens were placed on the aircrafts by the Bank In addition, the Trustee appoints the directors of the Foreign Company

Both aircrafts, 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 those aircrafts at the end of the loan-repayment period for $1 00

The two aircrafts are included in the financial statements within the Company's fixed assets (depreciated over the expected period of economic benefit), against an entry to long-term loans for the loan received to finance most of the aircraft's cost

3 On April 10, 2008, the Company signed an agreement with a Spanish airline, whereby 3 new 737-800 aircrafts would be acquired at a total investment of $49 million per aircraft The aircrafts were delivered in April, May and June 2009

To complete the transaction and finance the purchase, the Company received the approval of the Export-Import Bank of the United States (hereafter "the Bank" or "ExIm") for $37 5 -$38 million in financing for each aircraft In each of the above aircrafts deliveries the Company signed an agreement with the Spanish airline to cancel the direct purchase of the aircraft in question, so that the aircraft would be sold by the Spanish airline to Boeing, with the Company purchasing the aircraft directly from Boeing Immediately prior to the aircraft delivery dates, for financing purposes, financing agreements were signed with ExIm to purchase the aircrafts

For this purpose 2 new foreign companies were founded in Delaware named Miriam Leasing LLC and Aaron Leasing LLC (hereafter "the Foreign Companies") The ExIm Bank, in addition to financing, also provided bank guarantees for the transaction The ExIm Bank (as lender and guarantor), the Foreign Companies and the Company appointed Wells Fargo as trustee (hereafter "the Trustee")

Liens were placed on the shares of the Foreign Company in favor of the Trustee Liens were placed on the aircrafts by the Bank In addition, the Trustee appoints the directors of the Foreign Company

The three aircrafts, 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 those aircrafts at the end of the loan-repayment period for $1 00

The three aircrafts are included in the financial statements within the Company's fixed assets (depreciated over the expected period of economic benefit), against long-term loans for the loan received to finance most of the aircraft's cost

For further details regarding terms of loans received for the aircrafts, see Note 22 d 3

e. Aircraft and engine purchase and sales agreements:

1 a) In March 2008 an agreement was signed with the aircraft manufacturer Boeing whereby it would acquire from Boeing four new wide-bodies and long-ranged 777-200 ER aircraft (hereafter "the Agreement") The Agreement was approved by the Company's Board of Directors on April 30, 2008 The original delivery dates for the aircraft were set for January 2012, April 2012, November 2012 and January 2013 Total acquisition cost for the four aircrafts, including spare parts and installations, amounts to $576 million In accordance with the Agreement, the payments for each aircraft will be made starting two years before each aircraft is delivered to the Company

Pursuant to terms of this agreement, the Company was granted an option to convert the aforementioned acquisition into new 777-300 ER aircrafts Exercise of the option in question was to be decided by December 31, 2009, subject to the fact that Boeing would not be obligated to supply the aircrafts on the above delivery dates (this date has been extended by the parties from time to time)

Furthermore, the agreement grants the Company another option to acquire two additional aircrafts from the same model, to be delivered to the Company in 2014 and 2015, in accordance with terms set forth in the agreement
The Company has paid Boeing an advance payment for the purchase of the aircrafts and payment for the additional option as stated above

b) Due to material changes occurring to the aviation industry since the signing of the agreement, including the global market crisis and the impact of these changes on the economic, business and financial environment in which the Company is active, and after re-examination of the Company's existing aircraft fleet and required adjustments to it, the Company has approached Boeing and Boeing has accepted the Company's request, and on April 29, 2010 the parties signed a letter of consent to cancel the Agreement, and agreed upon the conditions according to which the Company would be entitled to make use of a sum equal to the advance payments paid by it pursuant to the agreement, this for new aircraft purchase transactions in the coming years The cancellation of the agreement in question has no impact on the Company's Financial Statements A strong and extensive relationship exists between the Company and Boeing and the cancellation of the agreement was out of mutual understanding and in light of the good relationship between the parties The Company is continuing to study its business strategy and long and short term equipping needs, adopting to general market trends and in accordance with the Company's activities

c) On February 7, 2011 an agreement was signed with aircraft manufacturer Boeing ("the Agreement) for the purchase of four new Boeing 737-900ER aircrafts and two additional aircrafts of the same model convertible to purchase options In addition, the Company was granted the option to purchase two additional aircrafts of this model ("the Option") In this Agreement the Company was granted conversion rights for other models as well as associated rights The comprehensive value of the agreement is estimated at between \$215 million and \$230 million (respectively for four to six aircrafts, as purchased in practice, without the option), and reflects an average market value of an aircraft of this model and similar production year, in accordance generally accepted industry price lists and subject to adjustments and investments in accordance with the version agreed upon by the parties, including linkage of aircraft prices, using an agreed-upon linkage formula
The payments for each aircraft will be made two years before each aircraft is delivered to the Company, or according to other payment options the Company may choose Furthermore, the parties agreed upon conditions for the use of advance payments made by the Company to Boeing for previous agreements Note that as of the signing date the Company has made advance payments for six aircrafts to the amount of 1% of the purchase price and an additional advance payment was made for the aforementioned option, upon signing the agreement
At this stage the Company has not yet reached a final decision regarding the transaction's financing and the Company is considering its various options
According to the agreement, the aircrafts are expected to join the Company's aircraft fleet between late 2013 and 2016 The aircrafts are expected to serve the Company in short and medium ranges (Europe and other destinations) and shall replace narrow-bodied aircrafts as per Company strategy The aircraft shall be operated in a 160-seat configuration, divided into two classes Note that these are aircrafts of a new and advanced model, with modern engines and advanced internal configurations

2 On January 10, 2008, the Company signed an agreement to acquire a 747-400 passenger aircraft The aircraft was manufactured in 1994, and was delivered to the Company in October 2008 In 2008 the Company paid the entire proceeds, to the amount of \$50 million, for the purchase of the aircraft, investments for its adoption at the Company and costs of additions and installations needed to be carried out on the aircraft so as to adapt it to the Company's needs Self financing amounted to \$14 million, with the balance financed by loans, to the amount of \$36 million, in accordance with a long-term credit agreement with a foreign bank For further information regarding the terms of the loan received, see Note 22 d 2

3 On July 17, 2008 the Company signed an agreement for the sale of two Boeing 767-200 aircrafts, manufactured in 1983, owned by the Company The delivery of one 767-200 to a Philippine airline was completed on October 15, 2008, this after the entire proceeds for this aircraft, a total of \$6 5 million U S , had been paid to the Company prior to the signing of the agreement The Company listed a pre-tax capital gain of \$4 7 million for the sale of the aircraft in 2008 As regards the sale of the second 767-200, the intended purchaser, a Singapore investment company, informed the Company that it would be unable to meet payments for the aircraft due to difficulties in securing bank financing and therefore would be unable to purchase it, leaving the \$325 thousand advance payment in the Company's possession

4 On February 23 2009 a Boeing 757-200 possessed by the Company, manufactured in 1987, was sold and leased back to the El Al Group The aircraft was purchased by a Panamanian aircraft leasing company The Company received $9 million in return for the aircraft According to the agreement, the Group shall lease the aircraft under market conditions for a 22 month period, with the option to extend the lease for an additional 12 months, as well as a monthly credit for engine maintenance calculation amounting to $1 8 million The capital gains created by the transaction were not material
In July 2010 the Company decided to exercise its option to extend the lease, starting December 2010, for an additional 12 months

5 In April 2009 two Boeing 767-200 engines were sold to Volvo Aero Services Corp (VAS) in return for a total of $1 8 million In January 2010 a consignment agreement was signed for the sale of the aircraft parts to VAS Due to the agreement the Company recognized $300 thousand as revenues in 2010

6 On May 18, 2009, a Boeing 757-200, manufactured in 1990, in the company's possession was sold and leased back by the El Al Group via operational lease The aircraft was purchased by a Panamanian aircraft leasing company The Company received $11 5 million in return for the aircraft According to the agreement, the Group will lease the aircraft under market conditions for a 27 month period As a result of the transaction, the Company recognized an additional $2 6 million expense in its Financial Statements for the year 2009

The above aircrafts purchases are in accordance with the Company's business strategy to act to generally refresh its aircraft fleet, in accordance with the El Al 2010 strategic plan

f. Depreciation Policy

In accordance with the Company's projections regarding the decommissioning of the three 757 and four 767 aircrafts owned by the Company, the residual values of these aircrafts and resulting depreciation costs were updated Additionally, in light of the relatively close decommissioning date of these fleets, and concrete price quotes received by the Company regarding the aircrafts, it was decided that the residual values of these fleets shall be set according to the aircraft price lists in "market value" values reflecting a lower value, and not in "MID" values, as was formerly practiced regarding these fleets (and all fleets)
Following the above change in estimates, the Company recognized an additional depreciation expenses of $2 4 million in 2010

g. Impairment of fixed assets

As set forth in Note 2 1 above, for any aircraft fleet where indications of impairment exist, the Company estimates the recoverable amount for said fleet The recoverable amount is the sales price of the aircraft or its value of use, whichever is higher In estimating value of use, the Company estimates future cash flows and deducts them to their current value using a discount rate reflecting current market estimates Within this framework the Company relied on projections pertaining to, among other things, expected scopes of activity, prices of flight tickets and bills of lading, operating costs and future interest rates Material changes to these estimates, or to any part thereof, may impact the recoverable amount of said aircraft
Over the course of the reported period, the Company examined the recoverable amount of aircraft fleets in which signs of impairment were evident As regards the recoverable amount of these aircraft fleets, in which signs of impairment were detected, it was found that the recoverable amount for each aircraft fleet surpasses its depreciated cost as of that date Accordingly, no provision for the devaluation of aircrafts and engines was made in these Financial Statements

h. Ratio of Loan Balance to Collateral

Over the course of the reported period the Company was required to provide aircrafts in its possession as an additional bank guarantees due to loans taken to finance its aircraft fleet
As of this report, no difference exists in the loan balance to guarantee ratio, see Note 22 g 1

i. Unrestricted Assets

The Group's total fixed assets as of December 31, 2010 is $1,232 million
The Group's key assets are aircrafts and spare engines, which their depreciated cost as of December 31, 2010 is $1,090 million The depreciated cost of the Group's main assets, as stated, that are not restricted by a third party amounts to a total of $23 million
In addition, as of the balance sheet date, the Group possesses parts and other fixed assets to the amount of $142 million, free of any encumbrance

j. **Buildings and Installations:**

	As of December 31					
	2010			2009		
	Cost	Accumulated Depreciation	Balance	Cost	Accumulated Depreciation	Balance
	Thousands of Dollars					
Building, aircraft hangers, warehouses, workshops and offices at BGN	73,012	45,920	27,092	69,407	44,354	25,053
Leasehold improvements of rented offices	23,045	17,826	5,219	22,772	16,657	6,115
Freehold offices	2,952	2,130	822	2,894	2,067	827
Passenger and cargo terminals	11,524	11,524	-	11,524	11,524	-
Total	110,533	77,400	33,133	106,597	74,602	31,995

k. **Real Estate Usage Rights and Building Rental Fees:**

For details regarding usage rights to real estate at Ben Gurion Airport and commitments for the rental of buildings in Israel and abroad see Note 29 d 2 below

l. **Aircraft and Engine Maintenance Agreements**

In January 2009 the Company signed an agreement to provide heavy maintenance and logistical support upon request to Nepal Airlines for Boeing 757 aircrafts

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

m. **Assets Pledged as Collateral**

For details regarding the Group's assets pledged as collateral for the Group's liabilities, see Note 41 below

n. **Cargo Aircraft Activity**

In this field of operations, the Group offers cargo transport services in cargo aircrafts from Israel to destinations to and from Israel, cargo transported from one foreign country to another foreign country (Fifth Freedom), for example from Liège to New York, or cargo transported in the context of Sixth Freedom (indirect flights via stopovers in the home country of the airlines), for example from Asia to Europe or the U S with a stopover in Israel The Group differentiates between three main destination groups (1) North America, (2) Europe, (3) East and Central Asia During the reported year, the services offered by the Group in this field of operations were cargo transport services to one destination in Europe, one destination in North America and one destination in East Asia Moreover, the Company offers cargo services to many additional destinations by means of the Group's passenger aircrafts or by means of cooperative arrangements with other airlines and also by means of land transport from the airport

Prior to the approval of the report, the Company makes use of two cargo aircrafts – one Boeing 747-200 owned by the Company and an additional leased Boeing 747-400 The second 747-200 owned by the Company is no longer in service due to the need for major maintenance works, which were not carried out by the Company

In November 2009 the conclusions of the public committee established by the Minister of Transportation and Road Safety to study the Israeli cargo transport industry and to study the state of Israeli airlines dealing in cargo shipping were published, the key points being as follows

1) The State shall study the cost of the minimal short term response for the defensive need to transport cargo in times of emergency Information on cost will allow a well-established response to be made to the State's response to the El Al query
2) The State shall study the request made by CAL regarding assistance with collateral If it is decided to assist CAL, this assistance shall be contingent on the Company's commitment to operate recruit able aircrafts in times of emergency
3) The Committee saw fit to note that it saw nothing wrong in the existence of cooperation between El Al and CAL, insomuch as this leads to the existence of a fleet for transporting cargo in times of emergency without causing a

material impact to competitiveness In the event that the companies approach the Restriction of Trade Commissioner with a request for collaboration in the area of cargo shipping, the Committee recommends that approval shall be made conditional, *inter alia*, on the assurance of proper availability of emergency cargo aircraft Subject to this, the Committee recommends that insomuch as Government ministry opinion is required on the subject, the subject shall be considered

4) The paragraph in the CAL operating license precluding it from entering into collaboration agreements shall be cancelled
5) The possibility of establishing an inter-ministerial committee headed by the Ministry of Defense and with the participation of the Ministry of Transportation, the CAA and the Ministry of Finance, to study specific issues pertaining to cargo shipping, shall be considered

Note 17 - Intangible Assets

a. The following is the composition and movement of this item:

	Usage Rights to Security Equipment	Software	Total
	Thousands of Dollars		
Cost			
Balance as of January 1, 2010	4,271	6,206	10,477
Purchases	236	2,818	3,054
Disposals	-	(1,294)	(1,294)
Balance as of December 31, 2010	4,507	7,730	12,237
Accumulated amortization:			
Balance as of January 1, 2010	1,999	974	2,973
Amortization	450	970	1,420
Balance as of December 31, 2010	2,449	1,944	4,393
Depreciated Cost			
As of December 31, 2010	2,058	5,786	7,844
Cost			
Balance as of January 1, 2009	5,703	4,656	10,359
Purchases	405	1,550	1,955
Disposals	(1,837)	-	(1,837)
Balance as of December 31, 2009	4,271	6,206	10,477
Accumulated amortization:			
Balance as of January 1, 2009	1,433	308	1,741
Amortization	566	666	1,232
Balance as of December 31, 2009	1,999	974	2,973
Depreciated Cost			
As of December 31, 2009	2,272	5,232	7,504
Annual depreciation rate	7%-33%	20%	

b Rights of Use of Security Equipment

The Company pays a relative portion of the security costs of the Government of Israel intended for safeguarding the Company's passengers and aircrafts from acts of war and terror, as set from time to time in Government resolutions Accordingly, the Company lists under intangible assets the payments made for its share in financing the protective systems and security inspection equipment The Company has an arrangement with the Ministry of Defense, according to which this equipment will be used by the Company exclusively over its anticipated useful economic life

c. Software:

This section mainly covers the Amadeus Project and the ERP Project

In June 2010 the Company signed a settlement with IBM constituting a solution to the financial dispute between the parties resulting from the cancellation of the agreement which includes, among other things, payment by the Company for the purchase of rights to interim products produced prior to the project's cancellation, dismissal of the mutual claims and arrangement of compensation between the Company and IBM The Company is conducting talks with Remco regarding the settlement agreement and the dismissal of mutual claims between the parties
The Company listed a $1 3 million expense in the reported year as a result of the erasure of investment components that failed to reach realization and an additional sum of $0 3 million for a final payment as a result of the project agreement The Company has begun the process of receiving new proposals from various bodies (RFP) for the implementation of a staged ERP project for selected Company organizational units in Israel and around the world The process of selecting the implementing party has yet to be completed

d. Participation in security costs:

Pursuant to the resolutions dated January 27, 2008 and August 24, 2008 regarding the participation of the State of Israel in the Company's security costs, on February 1, 2009 the Israeli Government passed an updated resolution regarding participation in the security expenses of Israeli airlines (following the resolutions dated January 27, 2008 and August 24, 2008), as follows "

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

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

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

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

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

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

After the 2009 State Budget passed in July 2009 and until the balance sheet, the Company received an accumulated sum of $10 million from the State of Israel for participation in security expenses for 2009 This sum reflects the Government Resolution passed on February 1, 2009, according to which starting at the beginning of 2009 the Israeli airlines' participation in security costs shall be reduced from 50% to 40% The added Government participation in these security expenses has been recognized in the 2009 Statement of Operations being offset from the security expenses borne by the Company in this period

Note 18 - Short Term Borrowing and Current Maturities

a. Composition:

	As of December 31	
	2010	2009
	Thousands of Dollars	
Current maturities of long-term bank loans	145,324	77,813
Current maturities of other loans (1)	972	-
Bank overdraft	1,291	28,203
Total	147,587	106,016
Annual interest (in %)	0 3-4 0	0 3-4 9

(1) In principle due to commitments to make capital leases for IT equipment

b Liens and collateral – see Note 41

Note 19 - Trade Account Payables

a Composition:

	As of December 31	
	2010	2009
	Thousands of Dollars	
Open accounts	152,379	120,601
Airlines	5,533	8,369
Total	157,912	128,970

b. The average credit period granted as a result of goods purchasing is 45 days (2009 48 days), for which the Group does not pay interest

Note 20 - Other Payables

a Current Liabilities

Composition:

	As of December 31	
	2010	2009
	Thousands of Dollars	
Airport fees and taxes payable	25,119	24,324
Interest payable on long term loans	2,190	2,646
Deposits received for passenger groups	3,390	6,804
Payables due to cargo claims (see Note 27 c b 1)	3,163	3,072
Other payables	15,763	17,598
	49,625	54,444

b. Non-Current Liabilities

Composition

	As of December 31	
	2010	2009
	Thousands of Dollars	
Payables due to cargo claims (see Note 27 c b 1)	6,263	9,090
Lease incentives (see Note 29 d 2 as well as 26 c)	4,437	4,228
	10,700	13,318

Note 21 - Linkage Conditions – Liabilities

Current liabilities- division by linkage conditions.

	As of December 31	
	2010	2009
	Thousands of Dollars	
Monetary liabilities		
In USD or linked	290,852	284,850
In Israeli currency (NIS)	164,538	155,895
In Euros or linked	29,516	27,560
Other foreign currency or linked	16,198	15,364
	501,104	483,669
Non-monetary Liabilities	231,204	204,444
Total	732,308	688,113

Non-current liabilities- division by linkage conditions:

	As of December 31	
	2010	2009
	Thousands of Dollars	
Monetary liabilities		
In USD or linked	594,899	745,441
In Israeli currency (NIS)	56,529	52,035
In euros or linked	675	893
Other foreign currency or linked	5,010	5,113
	657,113	803,482
Non-monetary Liabilities	84,259	56,126
Total	741,372	859,608

Note 22 - Long-Term Loans from Financial Institutions

a. **Composition:**

	As of December 31	
	2010	2009
	Thousands of Dollars	Thousands of Dollars
Dollar bank loans at variable interest	619,313	686,707
Dollar bank loans at fixed interest	99,103	108,541
Less current maturities	(146,296)	(77,813)
	572,120	717,435
Less – balance of loan arrangement costs	(11,036)	(13,241)
	561,084	704,194
Yearly interest (in %)	0 3-4 0	0 3-4 9

b. **Loan arrangement costs:**

	Cost	Accumulated Amortization	Depreciated Cost
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
As of January 1, 2010	25,332	(12,091)	13,241
Yearly additions	-	(2,205)	(2,205)
As of December 31 2010	25,332	(14,296)	11,036

c. **Repayment Dates as of December 31 2010**

	Thousands of Dollars
First year	*146,296
Second year	138,273
Third year	174,570
Fourth year	35,748
Fifth year and thereafter	223,529
	718,416
Less current maturities	(146,296)
	572,120

* See Note 22i below

d. **Additional information:**

1 For the financing of the purchase of aircrafts (including via subleases as denoted in Notes 16 d 1 and 16 d 2 above) and spare engines, between 1999 and 2007 the Company received bank loans totaling $1,057 million at variable interest of LIBOR plus a margin, repayable between 1999 and 2019

2 For financing most of the cost of the 747-400 aircraft (marked ELE) from Singapore Airlines, in November 2008 the Company received a $36 million loan from a foreign bank for an 8-year

period, with semiannual principal and interest payments The loan bears variable Libor interest plus a margin

3 To finance the three 737-800 aircraft (marked EKH, EKJ and EKL) received in April, May and June 2009, through a sublease as stated in Note 16 d 3, the Company received three loans from a foreign bank to the amount of $37 5-$38 million per loan The loans are for a period of 12 years and bear fixed interest of 3 62%, 3 62% and 4 01%, respectively The loans shall be repaid in 48 quarterly payments, principal and interest, on fixed dates each year

e. As for hedging transactions to fix variable interest rates – see Note 31 f

f. Early repayment:

All existing loans as of December 31, 2010 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 that adversely affects the Company's financial position or its business or its financial ratios in a manner endangering or potentially endangering its ability to repay any bank financing, then the bank may demand the immediate repayment of the credit balance it provided

g Restrictions and financial covenants of long-term loans:

1 Ratio between loans balances and collateral-

Some loan agreements described in items d 1 - d 3 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 predetermined international professional publications The Company has also undertaken that should the actual ratio be lower than the above ratio, the Company will provide additional collateral, or repay its bank loans earlier, in order to fulfill the ratio requirement
The Company has provided aircrafts in its possession as additional collateral for loans taken by the Company to finance its aircraft fleet, for further details, see Note 41

Due to the difference between the credit and the balance of securities created as a result of the drop in aircraft prices in October 2009, in June 2010 an agreement was signed between the Company and a banking corporation, according to which the bank shall provide a waiver, with its advance consent, for a two-year period due to the collateral gap created by the impairment of securities to a sum of $30 million A balance of collateral above that sum shall be grounds for the immediate repayment of the loans secured by the collateral
Furthermore, it was agreed that the Company would pay the bank a commission due to the colateral gap between the aircraft's value and the debit balance, calculated and paid on each date an aircraft value price list was published
As of the publication of the last price list, the Company was not required to pay any commission in accordance with the agreement in question

2 Arrangement with banks prior to privatization –

In 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 regard, 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 Borowich family. The term "control" for this purpose is as defined in the Banking Law (Licensing), 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

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 following consultation with BLL regarding any amount in excess of 60% In 2007, the Company approached BLL for a consultation on the distribution of dividends exceeding this rate

h. **Liens and collateral** – see Note 41

i. **Repayment Balance of Loans from Financial Institutions**

The repayment date of a loan from a financial institution to the amount of $60,000 thousand will apply in August 2011 This sum is presented in the December 31 2010 Financial Statements under Current Liabilities under Short-Term Borrowing and Current Maturities The Company is in advanced stages of talks with the financing banks to redeployment the an eliminated balance of the loan over an extended period

The repayment date of a loan from a financial institution to the amount of $4,000 thousand will apply in April 2011 This sum is presented in the December 31 2010 Financial Statements under Current Liabilities under Short-Term Borrowing and Current Maturities The Company is in advanced stages of talks with the financing banks to
the an eliminated balance of the loan over an extended period

Note 23 - Obligations Deriving from Employee Benefits

a **Composition:**

	As of December 31	
	2010	**2009**
	Thousands of Dollars	
Post-employment benefits within the framework of defined benefits plans.		
Retirement benefits	2,232	2,720
Liability due to retirement and severance pay	(34,342)	(30,147)
Pension funds	6,099	6,539
Redeemed sick pay	39,523	35,468
	13,512	14,580
Other long term employee benefits		
Benefits due to anniversary grant	1,174	1,078
Other	3,167	*2,332
	4,341	3,410
Termination benefits		
At-will retirement plans	10,121	14,350
Less current maturities	(1,183)	(1,007)
	8,938	13,343
Short term employee benefits·		
Wages, salaries and social benefits	45,198	32,799
Vacation and rest days	53,514	48,580
	98,712	81,379
Presentation in balance sheet:		
Assets due to employee benefits		
Non-current, net	38,799	34,501
	38,799	34,501

	As of December 31 2010	As of December 31 2009
	Thousands of Dollars	
Employee benefits obligation		
Current	98,712	81,379
Non-current, net	65,590	65,835
	164,302	147,214

b. Division by Linkage Conditions

	As of December 31 2010		As of December 31 2009	
	In or Linked to Foreign Currency	In NIS, Non-Linked	In or Linked to Foreign Currency	In NIS, Non-Linked
	Thousands of Dollars		Thousands of Dollars	
Post-employment benefits within the framework of defined benefits plans	10,756	2,756	11,882	2,698
Other long term employee benefits	2,599	1,742	1,800	1,610
Termination benefits	-	8,938	-	13,343
Short term employee benefits	1,097	97,615	1,133	80,246
Total employee benefit obligations	14,690	110,769	14,815	97,897

c. Post-Employment Benefits

(1) Defined deposit plans

Retirement and Severance Compensation Plans

Israeli labor and severance compensation laws require that the Company and subsidiaries pay compensation to employees upon retirement or dismissal The calculation of liability as a result of the termination of employee-employer relationships is carried out in accordance with the valid employment agreement and is based on the employee's salary which, in management's opinion, creates the right for compensation

The Company and its subsidiaries have approval from the Ministry of Labor and Welfare in accordance with Section 14 of the Severance Pay Law 1963, according to which its current deposits in pension funds and insurance policies exempt it from any additional obligations towards its employees, for whom the aforementioned sums were deposits The Group shall have no legal or implied obligation to make additional payments if the plan has insufficient assets to pay for all employee benefits pertaining to the employee's service in the current and in previous periods

The total sum of expenses charged to the Statement of Operations for defined deposit plans in the year ending December 31, 2010 is $12,926 thousand (2009 $11,858 thousand, 2008 $9,793 thousand)

(2) Defined Benefit plans

a General

Severance and Retirement Compensation Obligations

Israeli labor laws and the Severance Pay Law require that the Company and its subsidiaries pay compensation to employees upon dismissal or retirement (including employees departing from the workplace under other specific circumstances) The calculation of the liability for the discontinuation of the employer-employee relationship is carried our in accordance with the valid employment agreement and is based upon the employee's last salary payment, which, in management's opinion, creates the right to receive compensation, taking his years of employment into consideration

The obligation in question was calculated using actuary tables Actuary estimates were also conducted by Ogen Ltd , a member of the Israeli Actuary Association The present value of a defined benefit liability and the costs relating to current service and past service were measured using the Forecast Entitlement Method

b. Pension agreement-

The social benefits of some of the Company employees have been formalized in a pension agreement The pension agreement, signed on September 1, 1992 between the Company, the Histadrut, representatives of employees and the Mivtachim pension fund, is 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%, flight-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 (executive 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 entitled to 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 increased, in effect starting 2004

(3) Severance pay

a. General:

Employees who received tenure by 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
Prior to 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:

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
After the Company and the State made the above deposits in 2007, 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 30 4 million NIS (including interest accrued as of the report date) not deposited, which is included in the short-term deposits item as of December 31, 2010
In 2007, the Company contacted the Controller-General in the Ministry of Finance on the matter As of this report, the Controller-General has yet to issue his response in the matter of the Company's right to make use of the above proceeds
In the December 31, 2010 Financial Statements, this deposit is presented against an obligation to the State of Israel, until the Company's rights as regards these funds is resolved

(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 entitled, if they retired under terms entitling them to severance pay, to receive 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

(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 regards the special collective labor agreement signed between the Company's employees, the workers' representatives and the Histadrut – see Note 23 c (13) below

(6) Flight-Crew Personnel

Air-crew personnel are entitled, according to an agreement, to receive 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, whichever is higher 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 to the lawsuit filed as a result of the change in retirement ages – see Note 27 c (c) 4 below

(7) Company Executives

Company executives are employed via 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

(8) Employees Posted Abroad

Among the Company employees abroad are permanent workers who are Israeli residents, relocated to fill 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 from Israeli wages, and take into account the local standard of living and taxation, and the fact that the salary is subject to income tax and social 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 payments including rent and tuition are paid by the Company subject to Israeli income tax regulations As for the income tax authorities' claim regarding deductions – see Note 28f below
Benefits after the 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 others are obliged to adhere to national or other pension insurance The Company transfers regular payments for the pension insurance

Some of the local Company employees who are residents of the U S and the U K benefit from pension plans ("the Plans"), with the pension costs of the branch employees being paid 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

(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

(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) Collective Agreement

On November 2, 2008 a collective agreement was signed by the Company, the employees' representatives and the Histadrut ("the Agreement") following the Board of Director's approval of the Agreement on October 27 2008 The primary points of this agreement are as follows

- The Agreement shall be in effect until December 31, 2012

- Industrial peace and discipline - a commitment exists to uphold industrial peace for the duration of the agreement, while focusing on competition and growth challenges The Company, the Histadrut and the employees' representatives shall conduct joint activities to promote and maintain order and discipline in the Company The Company's authority as regards the termination of employees guilty of severe disciplinary violations shall be expanded

- Bonuses and pay raises – when the Company becomes profitable, a general pay raise shall be granted equal to 3% of their pension salaries In the event of profits greater than $10 million, employee shall receive a one-time bonus equal to between 18% and 24% of their base salaries In addition, in the following year, if the Company earns over $10 million, an addition raise equal to 1% of pension salaries shall be granted If the Company earns over $35 million, an additional 0 5% shall be added to salaries In the following year, if the Company earns over $10 million, an additional 1% shall be added to pension salaries If the Company earns over $35 million an additional 0 5% shall be added

- Horizon promotion bonus – when the Company becomes profitable, an annual budget for the financing of a horizon promotion bonus for non-promoted ground personnel as well as for flight crews and flight attendants with similar status Non-promoted employees are workers who have spend many years at the top step of the existing standard pay scale and are not designated for promotion

- Work cessation – initiated retirement and/or work cessation of 30 employees via a process including work cessation pathways using an increased compensation format, early pension or a choice between the above (in accordance with the retiring worker's age)

- Shifts and rest periods – shifts in Israel stations and maintenance shall be adjusted and reinforced according to activity loads Rest periods for pilots and regular and temporary flight attendants in North America shall be shortened

- Special tracks and promotion – temporary employees with more than 3 years seniority may participate in bids for entry-level managerial positions The Company shall be permitted to employ up to 40 employees via personal contracts Employees in the flight technical field shall receive tenure after their fourth year instead of their second

In September 2010 the Company signed a collective agreement with the New General Workers' Histadrut, Professional Union Branch – Transportation Workers Union, the Pilots' Union, via representatives of the El Al pilots' sector, dealing in various agreements pertaining to the Company's flight crews including the operation of a Boeing 747-200 cargo plane, extending the pilot transfer period from one fleet to another and so on

(13) Special Collective Agreement Regarding the Employment of Temporary Personnel ("the Temp Agreement")

The terms of employment of temporary employees have been arranged in a special collective agreement that, on May 20, 2004 was extended to December 31, 2008 The agreement stipulates the maximum length of employment of temporary employees, in accordance with the type of work and the department in which the worker is employed The agreement regulates all of the terms of employment of temporary employees, including wages, bonuses, provisions for comprehensive pensions, insurance, sick leave, rights to airline tickets, etc The agreement was extended as part of the Special Collective Agreement on November 2 2008 to December 31, 2012

As special collective agreement pertaining to temporary flight attendants and temporary employees in the administrative sector was signed in February 2011 According to the agreement, a special reserve of 150 employees from each sector shall be established, who shall remain employed for an additional period of ten years as temporary employees The working conditions of these employees shall be equivalent to full-time second generation workers, with the exception of the education fund These employees shall adhere to the second generation employee disciplinary code Dismissal of such employees due to incompatibility shall be via a consensual on par committee or following arbitration The agreement shall be in effect for three years with the option of extending it by an additional two

(14) Chief Actuary Assumptions as of the Balance Sheet Date

	As of December 31		
	2010	2009	2008
	%	%	%
Discount rate	4.2%	5.1%	5.3%
Projected yields on the plan's assets	4.2%	5.1%	5.3%
Projected salary increase rates	3.7%	3.7%	3.7%
Replacement and departure rates			
Up to 39 years of age	5.0%	5.0%	5.0%
Between the ages of 40 and 49	3.0%	3.0%	3.0%
Between the ages of 50 and 54	2.0%	2.0%	2.0%
Between the ages of 55 and 59	1.0%	1.0%	1.0%
Between 60 and retirement	0.5%	0.5%	0.5%

Assumptions regarding future death rates (including reductions in future death rates) are based on statistical data published by Ministry of Finance Circular 3-6 2007 from May 2007
The Group makes use of a discount rate appropriate to the market's yields from government bonds

In the event that use is made of the discount rate of corporate bonds, this is expected to have a material impact on the Group's Financial Statements A decrease shall occur in the sum of the defined benefit plan to the amount of $13,188 thousand (2009 $12,398 thousand, 2008 $13,225 thousand) as well as a $1,066 thousand increase in employee benefit plans (2009 $1,002 thousand, 2008 $1,004 thousand)

(15) Sums Recognized in the Statement of Operations for Defined Benefit Plans

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars		
Current service cost	8,167	7,572	7,022
Interest cost	11,794	11,382	12,435
Projected yield on the plan's assets	(11,352)	(9,055)	(12,815)
Real yield transferred from compensation to remuneration	273	667	496
Adjustments due to ceiling for recognition of asset due to defined benefit plan	-	-	774
Exchange rate differences	10,155	(256)	(1,881)
Deviation from strip	815	2,063	-
Changes in the period	(576)	-	-
	19,276	12,373	6,031
The expense was included in the following items:			
Operating expenses	15,479	8,940	4,316
Selling expenses	1,079	1,600	799
General and administrative expenses	2,718	1,833	916
	19,276	12,373	6,031

(16) Movement in the Current Value of Obligation due to Defined Benefit Plan

	For the Year Ending December 31	
	2010	2009
	Thousands of Dollars	Thousands of Dollars
Opening balance	222,916	212,398
Current service cost	8,167	7,572
Interest cost	11,794	11,382
Actuarial losses	11,776	1,363
Changes in the period	(576)	
Benefits paid	(13,560)	(12,582)
Exchange rate changes	10,155	2,783
Closing balance	250,672	222,916

(17) Movement in the Fair Value of the Plan's Assets

	For the Year Ending December 31	
	2010	2009
	Thousands of Dollars	Thousands of Dollars
Opening balance	202,370	159,723
Projected yield on the plan's assets	11,352	9,055
Actuary gains	9,784	34,739
Employer's contributions	7,100	10,143
Benefits paid	(10,511)	(13,663)
Real yield transferred from compensation to remuneration	(273)	(667)
Exchange rate changes	10,849	3,040
Closing balance	230,671	202,370

(18) Adjusting the current value of the commitment for the defined benefit plan and the fair value of the plan's assets to assets and liabilities recognized in the balance sheet:

	As of December 31	
	2010	2009
	Thousands of Dollars	Thousands of Dollars
Present value of funded obligations	202,636	180,696
Less - fair value of the plan's assets	(230,671)	(202,370)
	(28,035)	(21,674)
Current value of unfinanced liability	48,036	42,220
Net unrecognized actuary losses	(6,489)	(5,966)
Net asset/liability deriving from defined benefit commitments	13,512	14,580

(19) Composition of the plan's assets:

	Fair Value of the Plan's Assets as of December 31	
	2010	2009
	Thousands of Dollars	Thousands of Dollars
Shares	86,270	30,356
Government bonds	36,590	68,806
Corporate bonds	60,245	48,569
Cash, cash equivalents and deposits	27,069	15,139
Other investments	20,497	39,500
	230,671	202,370

The total projected yield rate is the weighted average of the projected yields of all types of assets constituting the plan's assets as detailed above The projected yield rate for the plan's assets in the reported year is 4 2% (in 2009 5 1% and in 2008 5 3%)

(20) Actual Yield from the Plan's Assets and Compensation Rights

	For the Year Ending December 31	
	2010	2009
	Thousands of Dollars	Thousands of Dollars
Projected yield on the plan's assets	11,352	9,055
Actuary gains	9,784	34,739
Actual yield on the plan's assets	21,136	43,794

(21) Actuary Gains/Losses Not Yet Recognized

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars		
Actuary gains (losses) not recognized as of January 1	(5,966)	(42,575)	15,670
Actuary gains (losses) created in the current period for the liability and due to plan assets	(1,991)	33,376	(58,017)
Deviation from strip	815	2,063	-
Exchange rate changes	653	1,170	(228)
Actuary losses not recognized as of December 31	(6,489)	(5,966)	(42,575)

d. Other Long-Term Employee Benefits

(1) General

Employees reaching 20, 30 and 40 years of seniority at the Company are entitled to a gift granted during the yearly "decades ceremony" held by the Company

(2) Chief Actuary Assumptions as of the Balance Sheet Date

	As of December 31	
	2010	2009
	%	%
Discount rate	4 2%	5 1%
Projected salary increase rates	3 7%	3 7%
Replacement and departure rates		
Until 39 years of age	5%	5%
Between the ages of 40 and 49	3%	3%
Between the ages of 50 and 54	2%	2%
Between the ages of 55 and 59	1%	1%
Between 60 and retirement	0 5%	0 5%

In order to capitalize the liability the Group makes use of a discount rate appropriate to market yields from government debentures

(3) Sums Recognized in the Statement of Operations for Long Term Employee Benefits

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars		
Current service cost	64	199	74
Interest cost	56	174	81
Actuary gains (losses) recognized in Statement of Operations	20	621	(430)
Exchange rate changes	104	(372)	15
Changes in the period	799	53	
	1,044	675	(260)
The expense was included in the following items:			
Cost of goods sold	838	542	(231)
Selling expenses	58	38	(9)
General and administrative expenses	148	95	(20)
	1,044	675	(260)

(4) Movement in the Current Value of Obligation due to Other Long Term Employee Benefits

	For the Year Ending December 31	
	2010	2009
	Thousands of Dollars	
Opening balance	3,410	3,210
Current service cost	64	51
Interest cost	56	45
Actuary gains (losses) recognized in Statement of Operations	20	160
Benefits paid	(112)	(123)
Changes in the period	799	53
Exchange rate changes	104	14
Closing balance	4,341	3,410

e. Termination Benefits

(1) General

Between 2000 and 2010, the Company's management adopted resolutions relating to early retirement programs for 703 employees, for which provisions were recorded in the Company's accounts As of December 31, 2010, all the employees (with the exception of 11 workers) had concluded their actual retirement from the Company within the framework of the abovementioned programs

The retirement plans include 11 employees, for whom decisions were reached by Company management during 2010, and for which a provision of $2 million was recorded in the December 31, 2010 Financial Statements (see Note 32 e 2)

The December 31, 2010 Financial Statements include the balance of an accrual in a total amount of $34 8 million for financing the retirement of approximately 354 employees, (after a group of employees included in the original retirement programs reached retirement age by December 31 2010, 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 the deposits as of December 31, 2009 amounted to $24 6 million The total net provision for retirement plans as of December 31, 2010 is $10 1 million

As part of the Company's privatization, the State of Israel provided guarantees, to uphold the Company's commitments, in favor of Mivtachim with respect to the retirement programs, which amounted as of December 31, 2010 to a total of approximately $8 5 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

(2) Composition of the Balance Sheet Balance:

	As of December 31	
	2010	**2009**
	Thousands of Dollars	**Thousands of Dollars**
Termination benefit obligation	34,757	41,191
Assets of plan to finance obligation	(24,636)	(26,841)
	10,121	14,350

(3) Presentation in Statement of Operations:

	For the Year Ending December 31		
	2010	**2009**	**2008**
	Thousands of Dollars		
Other expenses	5,106	1,289	9,084

(4) Chief Actuary Assumptions as of the End of the Reported Period:

	As of December 31	
	2010	**2009**
	%	**%**
Discount rate	4 2%	5 1%
Projected yields on the plan's assets	4 2%	5 1%
Projected salary increase rates	3 7%	3 7%
Replacement and departure rates		
Up to 39 years of age	5%	5%
Between the ages of 40 and 49	3%	3%
Between the ages of 50 and 54	2%	2%
Between the ages of 55 and 59	1%	1%
Between 60 and retirement	0 5%	0 5%

Assumptions regarding future mortality rates are based on a mortality table published by the Capital Markets, Insurance and Savings Branch of the Ministry of Finance in Memo 2007-3-6 dated May 2007 The average projected life span for a man retiring at the age of 67 is 82 years and for a woman retiring at age 64 is 85 years

In order to capitalize the liability the Group makes use of a discount rate appropriate to market yields from government debentures

f. **Short-Term Employee Benefits.**

(1) Paid Vacation Days

According to the Yearly Vacation Law, 1951, Company employees are entitled to a number of paid vacation days for each work year In accordance with the law in question and an amendment thereof established in the agreement between the Company and its employees, the number of vacation days to which each employee is entitled is determined based on the employee's seniority

Employees are entitled to 22 vacation days per year (with the exception of a minority entitled to 30 days per year), and to accrue the balance of unused vacation days Vacation days are first used from the current year's allotment and later from a balance passed forward from the previous year (on an LIFO basis) Employees who have left the Company prior to making use of the balance of their accrued vacation days are entitled to payment for the balance of these vacation days upon leaving

(2) Composition

	As of December 31	
	2010	**2009**
	Thousands of Dollars	**Thousands of Dollars**
Wages, salaries and social benefits	45,198	32,799
Vacation and rest days	53,514	*48,581
Total	98,712	81,380

*Reclassified

g. **Further Information - Related Parties**

For information on current employee benefit obligations granted to related parties see Note 38

Note 24 - Unearned Revenues

a. **Current Liabilities**

Composition:

	As of December 31	
	2010	**2009**
	Thousands of Dollars	**Thousands of Dollars**
From the sale of flight tickets	199,626	175,127
For frequent flyer points	31,366	29,106
Others	212	211
	231,204	204,444

b. **Non-Current Liabilities**

Composition:

	As of December 31	
	2010	2009
	Thousands of Dollars	
For frequent flyer points	51,467	50,813

Note 25 - Derivative Financial Liabilities

a. **Composition**

	Current Liabilities		Non-Current Liabilities		Total	
	As of December 31		As of December 31		As of December 31	
	2010	2009	0201	2009	2010	2009
			Thousands of Dollars			
Derivative financial instruments designated as hedging items						
Interest rate swap agreements	300	2,659	-	899	300	3,558
Jet fuel hedging agreements	-	51,447	-	361	-	51,808
	300	54,106	-	1,260	300	55,366
Derivative financial instruments measured at fair value via gain/loss:						
Interest rate swap agreements	2,029	1,537	19,739	18,875	21,768	20,412
	2,029	1,537	19,739	18,875	21,768	20,412
Total other financial liabilities	2,329	55,643	19,739	20,135	22,068	75,778

b. **Repayment Dates as of December 31 2010**

	Thousands of Dollars
First year	2,329
Second year	19,739
	22,068

* Splitting interest rate swap agreements between current and non-current liabilities is carried out in accordance with the contract's final clearance date with the hedging bank Regarding expected non capitalized cash payments for interest rate swap agreements, see Note 32 j 2

c. **Additional Information**

Regarding liens – see Note 41
Regarding deposit pledged from jet fuel hedging transactions, see Note 5b

Note 26 - Operational Lease Arrangements

(1) **General**

The Group entered into operational lease arrangements for aircrafts which as of the balance sheet date extended to periods of between 5 months and 6 years, which include an extension option for up to 3 additional years The Group does not have an option to purchase the leased assets at the end of the lease period In addition, the Company has a lease agreement with the Israel Airport Authority (see Note 29 d 2)

(2) Payments Recognized as Expenses

	For the Year Ending December 31	
	2010	2009
	Thousands of Dollars	Thousands of Dollars
Aircrafts leases	64,147	53,641
Land usage rights	1,581	2,208
	65,728	55,849

(3) Commitments for Minimal Future Leasing Payments for Non-Revocable Operational Leases

	As of December 31	
	2010	2009
	Thousands of Dollars	Thousands of Dollars
2010	-	40,552
2011	47,867	26,476
2012	37,304	18,558
2013	30,786	15,207
2014 onward	89,693	63,191
	205,650	163,984

Minimal leasing fee obligations do not include payment for maintenance reserves for operational aircraft leases

Regarding minimal future lease payment liabilities for non-revocable operational leases, the Group recognized the following liabilities

	As of December 31	
	2010	2009
	Thousands of Dollars	
Leasing incentives (see Note 29.d.2)		
Presented under other payables – non-current	4,437	4,228

Note 27 - Provisions

a. Composition

	Total	
	As of December 31	
	2010	2009
	Thousands of Dollars	
Provision to salaries and institutions (see Note 28f)	27,114	43,242
Legal proceedings (see c)	5,493	1,511
The State of Israel (see Note 23 c 3 b)	8,565	7,933
Other	3,767	4,531
Total provisions	44,939	57,217

b. **Movement:**

	Provisions to Salaries and Institutions	Legal Proceedings	Cargo Claim Provision	The State of Israel	Other	Total
	Thousands of Dollars					
Balance as of January 1 2009	38,736	3,493	15,427	7,821	3,300	68,777
Additional provisions recognized	1,438	873	-	54	1,231	3,596
Updating existing provisions	3,067	753	-	-	-	3,820
Sums used during the period	(334)	(823)	(3,265)	-	-	(4,422)
Sums cancelled during the period	-	(2,784)	-	-	-	(2,784)
Classified to other payables	-	-	(12,162)	-	-	(12,162)
Exchange rate influence	335	(1)	-	58	-	392
Balance as of December 31 2009	43,242	1,511	-	7,933	4,531	57,217
Balance as of January 1 2010	43,242	1,511	-	7,933	4,531	57,217
Additional provisions recognized	1,164	4,880	-	123	-	6,167
Updating existing provisions	2,015	218	-	-	-	2,233
Sums used during the period	-	(1,045)	-	-	-	(1,045)
Sums cancelled during the period	(22,250)	(73)	-	-	(764)	(23,087)
Exchange rate influence	2,943	2	-	509	-	3,454
Balance as of December 31, 2010	27,114	5,493	-	8,565	3,767	44,939

c. **Legal Proceedings**

As of December 31, 2010, legal claims in a total amount of approximately $151 million had been filed against the Company with respect to which the Company had recorded provisions in its Financial Statements, based on the Company's legal counsel advice, of approximately $7 4 million ($1 9 million of which is under non-current liabilities due to employee benefits)

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

In the assessment of Company management, based upon the opinions of its legal counsel, 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

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

a) **Class actions:**

1 Between 1998 and 2009, several class actions were filed against the Company, some of which are quantified and some are not, totaling 391 6 million NIS ($110 3 million as of the balance sheet date) as follows

(1) A claim regarding over-billing for flight tickets by travel agents as a result, allegedly, of the use of incorrect exchange rates

(2) A claim that a travel agent charged a travel fee at a rate higher than legally allowed, that being the representative rate, and that the Company is responsible for the actions of these agents

(3) A claim that charging customers purchasing flight tickets directly (and not through travel agents) using credit cards are charged in foreign rather than Israeli currency, a foreign

currency commission to the amount of 2% of the cost of the ticket (for converting the payment in foreign currency to Israeli currency) to the credit card companies, constitutes a violation of the consumer Protection Law, 1981, a violation of good faith and creation of illicit gains

(4) A claim that the prices collected by the Company for excess baggage in its flights are at excessive rates and are calculated separately from the Company's regular prices

(5) A claim that the claimant's flight from Madrid to Tel Aviv was postponed due to a strike at BGN and that she was not attended to by the Company causing expenses, distress and loss of time

(6) A Claim filed to the New York State Supreme Court The claimants were charged international conversion fees on their credit cards for the purchase of Company airline tickets in the U S using the credit cards of the credit card company sued

(7) A claim that the Company had failed to meet the requirements of Revision 40 to the Communications Law (Telecommunications and Broadcasts) 2008, known as the Spam Law, which forbids the transmission of advertising via email, fax, text message or telephone without the recipient's consent

All of the claims in question against the Company were dismissed in 2008 and 2009, some by way of a settlement and some by the Company refunding trial costs

2 In January 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 ($136 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 requested 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

On August 19 2009, the Court rejected the motion in question and ruled the petitioners liable for expenses to the Company An appeal was filed before the Supreme Court on October 22 2009

In the opinion of Company management, based upon the advice of its legal counsel, the Company is not expected to be found liable in this claim No provision has been made for this claim in the Financial Statements

b) Legal proceedings in the field of Restraint of Trade overseas:

(1) In February 2006, the Antitrust Division of the U S Justice Department ("Antitrust Division") began an open investigation against several airlines, together with additional competition authorities in Europe and other countries, of alleged suspicion of price fixing with respect to certain increments to prices of air cargo transport Several cargo transporters announced that they had received Grand Jury subpoenas pertaining to this investigation On September 27, 2006, the Company received a grand jury order from the Antitrust Division demanding information and documents regarding pricing practices and certain surcharges related to cargo transportation, since early 1999 and through the date of said order The Antitrust Division has informed the Company that it is under inquiry as a suspect

On May 25 2008 the Company's Board of Directors reached a decision regarding the listing of a provision in the Financial Statements at a capitalized rate of $20 million U S for the aforementioned antitrust investigation The decision was made based on a study of the possibility of a settlement with the U S Justice Department and was carried out as a matter of prudence and not as an admission of liability

On January 21 2009 the Company's Board of Directors approved a plea bargain made with the U S Justice Department to end the process

Within the framework of the plea bargain, the Company was required to admit that it had violated U S antitrust law and was involved in the fixing of one or more price components in the field of air cargo shipping to and from the U S in the period between January 2003 and February 2006, and was required to pay a fine of $15 7 million (a capitalized sum of $15 4 million to be paid in several interest-bearing installments across four year period) In addition, the Company undertook to continue its full cooperation with the U S Justice Department in its investigation As part of the agreement, the U S Justice Department agreed not to file additional charges against the Company or charges against Company employees and executives, past or future (with a few exceptions) regarding violations of U S antitrust laws made in the field of airborne cargo transport prior to entry into the plea bargain

A U S Federal Court confirmed the decision on February 4 2009

(2) In December 2006, the Company received a letter from the European Competition Commission ("the Commission") at its Germany office, which contained a request for information in connection with an investigation being carried out by the Commission The letter noted that the request for information was in the in connection with activities that, allegedly, 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 and other entities 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 submit data and documentation regarding the Company and its cargo activities, commencing with 1995 The Company has provided its response as requested by the Directorate's letter, while conducting an internal review of its cargo pricing practices

According to publications by the Commission and by several foreign companies, in December 2007 the Commission sent a "statement of objection" to several airlines with regard to the aforementioned inquiry, including claims of alleged breach of competitive statutes of the European Union

The Company has not received the aforementioned letter of claims, and is not among the companies to which the letter of claims was addressed On November 9 2010 the Commission published an announcement of its decision to fine 11 airlines for a total sum of €800 million for the operation of a global cartel influencing cargo services in the European Economic Area and in particular, for fixing actions pertaining to fuel and security surcharges, in the period between December 1999 and February 2006 The Company was not a recipient of this announcement, and therefore was not found liable and was not fined for this violation

(3) In February 2007, the Company received a statement of claim filed in a New York court on the matter of the rates for air cargo transport services

In the statement of claim in question, the Company was included as a defendant, along with 38 other airlines, which alleged that the defendants were partners in a conspiracy to fix prices for air cargo transport services, beginning in 2000, while violating competition and other laws in Europe and the United States The claim was filed in the name of entities that purchase air transport services, directly and indirectly and it also included a motion for class action recognition The claim includes a request for damages in an unspecified amount as well as additional remedies

The Company joined a mutual defense team featured other airlines being sued

In light of initial settlement talks and based on the advice of its legal counsel, the Company has listed a provision for this claim

(4) In August 2008, the South Korea Fair Trade Commission (hereinafter "the Korean Commission") presented the Company with a request for information pertaining to an investigation the Korean Commission is holding regarding possible violations of Korean competitiveness rules in the field of air cargo shipping for the period starting 1999

In February 2009, the Company received a request for complementary information from the Korean Commission The Company has provided its responses to the requests in question To the best of the Company's knowledge, the Korean Commission has conducted investigations on a series of airlines

In October 2009, the Korean antitrust authority sent out an "inspection report" to several airlines pertaining to the investigation in question containing claims on the matter of alleged violations of Korean antitrust laws The Company has not received the inspection report in question and to the best of its knowledge is not numbered among the companies to which the inspection report was addressed In May 2010 the Korean Fair Trade Commission published a press notice in which it announced its intention to fine 21 airlines in 16 different countries, for an accumulated sum of 119 5 South Korean wons, based on findings regarding involvement in a cartel in the matter of a number of cargo routes to and from Korea The Company was not a recipient of this announcement, and therefore was not found liable and was not fined for this violation

(5) On May 7 2009, the Company received a copy from a motion to approve the filing of a derivative claim and a draft of the claim itself, which were filed before the Tel Aviv-Yaffo District Court The filing-party, who claims to hold 4,500 Company shares (constituting 0 001% of the Company's equity) has filed a motion that the Court approve the claim as a derivative action against a number of executives serving at the Company in 2003 and who no longer serve in the Company ("the Claim"), based on the argument that these executive allegedly violated their prudence obligation toward the Company by involving the Company in fixing one or more price component in the field of airborne cargo shipping to and from the United States in the relevant period and that, he claims, hey caused damage to the Company estimated at at least $15 7 million U S , this on the basis of the plea bargain between the Company and the U S Department of Justice reported by the Company on January 22 2009 The claim was preceded by a motion to file a derivative claim, which was rejected by the Company after the Company's Board of Directors decided that it would not be in the Company's best interests to file such a claim against former Company executives The Company filed its response to the motion in September 2009 On August 27, 2009, the executives applied a request to join the action (hereinafter – "the Motion to Join") The motion to join was rejected by the District Court After the attempt made by the executives to change the District Court's ruling by way of a motion to clarify their ruling was not successful, on December 26, 2010 they applied a request to appeal to the Supreme Court in Jerusalem In February 10, 2011 ruling, the Supreme Court accepted the executives' appeal and ruled that the motion to join is to be ruled upon by the District Court A date for a hearing on the motion to join is to be determined
Over the course of these proceedings and prior to the discussion on the request, the claimant passed away On January 12 2011, the claimant's representative announced that his heirs have stated their intent to take his place and continue with the proceedings A date for a hearing on the motion is to be determined

c) **Other Material Legal Proceedings**

(1) In 2008 and 2009 legal proceedings were conducted between the Company and Sabre Inc (a company registered in the U S , hereinafter "Sabre") and between the Company and Sabre Marketing Nederland BV (a Company registered in the Netherlands), regarding the collaboration agreements signed between the companies to the amount of $104 4 million
On October 1, 2009 a series of agreements was in which all disputes and legal proceedings between the parties would be concluded Accordingly, the commercial agreement at the basis of the joint company – Sabre Israel - was concluded, and on the date of the settlement the Company sold the entirety of its holdings in the joint company (49%) in return for the payment of the Company's share of the joint company's equity and the joint company also repaid the owner's loan granted by the Company, the balance of which equaled a sum of $1 2 million U S In addition, The Company and Sabre entered into a new agreement, updating the existing agreement for distribution using the Sabre distribution system, allowing Israeli travel agents connected to this system to work in a full content format In addition, according to the settlement the Company cancelled charges issued to the joint company for data processing and communications expenses and paid the joint company sums offset in the past by those charges, concurrently with the cancellation of the additional arbitration process beginning in Israel in relation to these sums As a result of the aforementioned settlement, the Company listed a reduced provision to the amount of $1 7 million U S in its Q3 2009 Financial Statements

(2) In October 2005, a claim was filed 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 (approximately $2 2 million U S as of the balance sheet date)
The Company made a provision for this claim in its Financial Statements, based on the opinion of its legal counsel

(3) In February 2007, a claim was filed against the Company and other parties in the New York State Supreme Court by an employee of the Company for allegations of sexual harassment by a Company employee in the U S In August 2010 a settlement was reached between the parties, in which a monetary sum was paid the claimant

(4) In June 2006, a suit was filed against the Company and against the State of Israel – Ministry of Finance by 94 claimants who were employed by the Company and took early retirement between

2001 and 2003 The claimants in their suit have appealed for declaratory relief/order of performance to amend their retirement agreements in a manner in which the retiree will receive the early pension stipend, including fringe benefits, until the legal retirement age, instead of until the age of 65, alternately, the claimants appealed to revoke the retirement agreements Alternately, the claimants appealed to revoke the retirement agreements The claimants quantified their claim at 18 2 million NIS (some $5 1 million on the balance sheet date) In January 2009 the court ordered that this claim be consolidated with two additional claims On January 6 2009 it ruled that the claimants submit their position regarding the limitation of the causes of the claim On October 14 2010 a partial ruling was issued, stating that early retirement agreements must be reinterpreted, so that instead of 65 years of age they shall be considered valid until 67 The partial ruling also stated that within 60 days of the ruling, basic agreed-upon calculation principles shall be submitted to calculate the sums Subsequently, the Company filed a request to appeal the partial ruling before the National Labor Court, which was rejected in January 2011 The Company made a provision for this claim in its Financial Statements, based on the opinion of its legal counsel

(5) In March 2010 a financial claim was filed before the Jerusalem District Court by Mishpacha Newspaper Ltd and Mishpacha Magazine (2005) Ltd against a cargo agent and against the Company for a sum of 6 5 million NIS (of which a sum of $1 million is claimed against the Company), featuring claims regarding bills of lading issued for cargo shipments The Company made a provision for this claim in its Financial Statements, based on the opinion of its legal counsel

(6) In March 2010 a lawsuit was filed against the Company as part of arbitration proceedings in the U S to the amount of $0 7 million on behalf of a hotel that had provided accommodation services to the Company's air crews, which include arguments regarding accounts that require settlement between the parties The parties have decided to engage in arbitration with the intent of solving the dispute The Company has made a provision for this claim in its Financial Statements, based on the advice of its legal counsel

(7) In October 2010 a suit was filed before the Rishon Lezion Magistrate's Court by the Israel Aviation Authority against the Company to the amount of 1 8 million NIS, in its suit, the IAA claimed that as part of a project for the construction of a new sewage treatment plant in BGN, the Company undertook to construct preliminary facilities and perform sewage treatment up to a specific date, so that the Company facilities may be connected to the new facility The claim was that the Company had violated its obligations and as a result, the IAA was forced to continue operating old oxygenation ponds, causing it costs and damages A statement of defense has been filed The Company made a provision for this claim in its Financial Statements, based on the opinion of its legal counsel

(8) Following the petition filed in May 2010 by the City of Holon – Head of the Forum of Authorities Surrounding Ben Gurion Airport before the Supreme Court, inter alia against the Minister of Transportation, the Civil Aviation Authority and the Airports Authority (the Company was not listed as a respondent in the claim), an additional petition was filed before the High Court of Justice by the City of Holon – Head of the Forum of Authorities Surrounding Ben Gurion Airport against the Minister of Transportation and Road Safety, the Minister of the Environment, the Airports Authority, the Civil Aviation Authority and the Company, for the issue of an injunction regarding the permit received by the Company in 1998 to perform takeoffs between Thursday and Friday or before holiday eves, during certain hours of the night The Company and the other respondents (state authorities) have filed their response in which they objected to the petitioner's petition based on various arguments Furthermore, hearings were held before a forum of judges on December 23, 2010 and February 8 2011 and the petitioner filed a response to the respondents' response

Pursuant to this response the petitioner made an offer according to which it would withdraw the petition subject to the statement that the Company would perform no takeoffs at all between 02 00 and 05 00 during summer months and during the winter would only take off during those hours to those destinations to which it intends to return before the beginning of the Sabbath, as close as possible to the hours at the beginning and end of the restriction and with the approval of the Head of the Civil Aviation Authority, who shall provide a copy of his decisions to the petitioner

The court requested that the Company and the other respondents reply to the offer in question The other respondents replied that the petition should be rejected on the grounds of preliminary arguments and on its own grounds, but noted that the Company was the chief interested party in the offer and therefore its reply was needed The Company submitted a response to the court in which it objected to the petitioner's offer, inter alia due to the fact that it would worsen the Company's status relative to permits it has held for many years, to the fact that it is based on incorrect data and due to the fact that the petitioner has not established grounds for the court's involvement and that the petition should be rejected

The Company estimates that the petition's acceptance would harm the Company's flight schedule Furthermore, the implementation of a decision restricting activity at certain hours, as stated above, of aircraft with certain characteristics in the Company's service, may on the one hand have a negative impact on the Company's operational abilities as regards the operation of various aircraft or various flights, particularly the 747-200, 767-200 and 747-400 fleets in the Company's service and thus impact the Company's ability to operate flights On the other hand, the option to perform takeoffs of certain aircraft at all times of day may have a positive effect on the ability to operate these aircraft, taking better advantage of their operation

(9) On February 2, 2011 the Company was provided with a copy of a motion to approve the filing of a claim as a derivative claim ("the Motion") as well as a copy of the derivative claim The motion was filed to the Economic Department of the Tel Aviv District Court by a holder of 5,000 Company shares (constituting 0 001% of its share capital) Note that the shareholder had submitted two demands to the Company, which had been rejected by the Company's Board of Directors

According to the motion, the court was asked to approve a derivative claim to the amount of 22,800 thousand NIS against Israel (Izzy) Borowich, Tamar Moses Borowich, Amiaz Sagis, Nadav Palti, Amnon Lipkin-Shahak, Yigal Arnon, Eyal Rosner, Shimon Katzanelson and Yehoshua Ne'eman, who had served on the Company's Board of Directors in 2005 during the ratification of the employment contract of the former Company CEO, Mr Chaim Romano

The motion claimed, inter alia, that the aforementioned board members were negligent in determining and approving the yearly incentive bonus for Mr Romano, who had served as Company CEO between 2005 and 2009, as well as regarding the Company's reports on the formula of the bonus in question The Company has yet to file is response

For details regarding the Securities Authority's inspection report, see Note 42 8

d) **Other proceedings:**

Additional legal claims totaling $5 5 million exist against the Company, for which the Company has made provisions in its Financial Statements based on the advice of its legal counsel

e) **Income Tax – Withholding:**

The Company has received agreed assessments for withholding tax through the 2005 tax year

As for the matters remaining in dispute, the Company received assessments for the years 1999 through 2005, amounting to approximately 162 3 million NIS ($43 million), including interest and linkage (not including fines)

The Company disputed the Income Tax rulings regarding the three issues mentioned above and has appealed the assessments before the Tel Aviv-Jaffa District Court

The parties have begun holding talks in an attempt to reach an agreement regarding the assessments in question, and on February 10 2011 the Company's Board of Directors ratified the signing of a settlement with the Income Tax Authorities (Ramla Assessment Clerk) Following the settlement, the Company received a discount assessment up to and including tax year 2010 See Note 28f

Note 28 - Taxes on Income

a. Deferred Tax Balances

The composition of deferred tax assets (liabilities) are detailed below:

	Balance as of January 1 2010	Charged to Gain/Loss	Charged to Other Comprehensive Income	Transferred from Other Comprehensive Income to Gain/Loss	Changes in Tax Rates*	Balance as of December 31, 2010
	Thousands of Dollars					
Timing differences						
Cash flow hedges	10,483	(200)	(21,511)	(542)	671	(11,099)
Fixed assets	(184,906)	(16,510)	-	-	7,650	(193,766)
Financial assets at fair value through profit or loss	5,103	570	-	-	(231)	5,442
Provisions, doubtful debt and employee benefit obligations	31,649	(3,234)	-	-	141	28,556
Frequent flyer plan	5,508	(5,156)	-	-	299	651
Total	(132,163)	(24,530)	(21,511)	(542)	8,530	(170,216)
Unused tax losses and benefits						
Losses for tax purposes	126,850	8,613	-	-	1,961	137,424
Total	(5,313)	(15,917)	(21,511)	(542)	10,491	(32,792)

	Balance as of January 1 2009	Charged to Gain/Loss	Charged to Other Comprehensive Income	Transferred from Other Comprehensive Income to Gain/Loss	Changes in Tax Rates*	Balance as of December 31 2009
Timing differences						
Cash flow hedges	38,722	(808)	(28,064)	633	-	10,483
Fixed assets	(226,357)	(4,772)	-	-	46,223	(184,906)
Financial assets at fair value through profit or loss	11,144	(6,041)	-	-	-	5,103
Provisions, doubtful debts and employee benefit obligations	41,599	(4,275)	-	-	(5,675)	31,649
Frequent flyer plan	12,314	(6,727)	-	-	(79)	5,508
Total	(122,578)	(22,623)	(28,064)	633	40,469	(132,163)
Unused tax losses and benefits						
Losses for tax purposes	120,706	47,148	-	-	(41,004)	126,850
Total	(1,872)	24,525	(28,064)	633	(535)	(5,313)

* Changes to tax rates were recognized in the Statement of Operations

b. Timing Differences due to Investments in Investee Companies for which No Deferred Tax Liability was Recognized

The Group did not recognized deferred tax liabilities for subsidiaries and investee companies as the Group intends to hold and develop the investments, and the decision exists not to distribute taxable dividends in the foreseeable future In addition, dividends from subsidiaries and associated companies are not taxable

c. Tax Expenses on Income (Tax Benefit) Charged to the Statement of Operations

	2010	2009	2008
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
Current tax expenses	3	99	171
Deferred taxes	5,968	(24,623)	(7,972)
Total tax expenses (tax benefits)	5,971	(24,524)	(7,801)

d. The Effective Tax

	2010	2009	2008
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
Profit (loss) before taxes on income according to Statement of Operations	62,981	(101,266)	(50,251)
Statutory tax rate	25%	26%	27%
Tax expenses (revenues) according to statutory tax rate	15,745	(26,329)	(13,568)
Tax surcharge (savings) due to			
Non-deductible expenses	717	1,270	4,876
Differences in calculation of taxable income due to exchange rate differentials			
Adjustments due to changes in tax rates	(10,491)	535	891
Total taxes on income (tax benefit) presented in Statement of Operations	5,971	(24,524)	(7,801)

e. Tax Laws Applicable to 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 incidence 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

In accordance with the Amendment, starting tax year 2008, the adjustment of taxable income to a real basis of measurement shall no longer be calculated In addition, depreciation of fixed assets and sums of losses transferred for tax purposes shall no longer be linked to the CPI, in such a manner that these sums will be adjusted to the CPI of the end of the 2007 tax year, and their link to the CPI shall be discontinued from that date onward

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

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

Overseas subsidiaries are subject to the tax codes in effect in their countries of residence

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

In accordance with Amendment 147 to the Income Tax Ordinance, 2005, the 34% corporate tax rate shall be gradually reduced starting 2006 (for which a tax rate of 31% was established) until 2010, for which a tax rate of 25% was established (the tax rates in 2007, 2008 and 2009 are 29%, 27% and 26%, respectively)

On July 23 2009 the Economic Streamlining Law 2009 (Legislative Changes to Implement the 2009 and 2010 Economic Plan) (hereinafter - "the Arrangements Law") was published According to the Arrangements Law, corporate tax rates will gradually decrease starting 2011, for which a tax rate of 24% was set, to tax year 2016, for which a corporate tax rate of 18% was set
The implementation of these amendments influenced the Company's deferred tax balances

Amendment 174 to the Income Tax Ordinance - Temporary Order to Tax Years 2007, 2008 and 2009 (hereinafter "The Amendment") was published on February 4 2010 In accordance with the Amendment, Israeli Accounting Standard 29 on the matter of adoption of IFRS, shall not apply to the determination of taxable income in the years in question even if applied for the purpose of preparing the financial statements
According to the Tax Authority's January 18 2011 memo, the Tax Authority intends to recommend that the Minister of Finance act to extend the temporary order in question to tax year 2010

f. Deduction Assessments

On February 10 2011 the Company's Board of Directors ratified the signing of a settlement with the Income Tax Authorities (Ramla tax officer)
This settlement came as a result of a dispute between the Company and Income Tax in which the Company received assessments followed by orders for 1998 through tax year 2005 Most of the assessments issued were estimated by the Company at a total sum of 186 million NIS ($52 million) including interest and linkage differentials up to December 31 2010
The key points of the dispute between the Company and the tax authorities are the value of flight tickets, on the basis of available seats and on the basis of reserved seats, granted employees as discounts, as follows

a For flight tickets granted on an available seat basis, the Company's position was that the value of the ticket shall be calculated at a rate of 22 5% of the flight ticket prices established as a basic price for the issue of employee economy class tickets, according to an arrangement conducted in the past with Income Tax and revoked in 1997 The assessor determined, in assessments issued for the Company for 1998-2005, the value of the flight ticket at variable rates from the average price of economy class tickets, which are higher than the rate set by the Company above (up to 75% of the price of an average ticket), this based on the average load factor for the month in which the flight took place
b For flight tickets on the basis of a reserved seat the Company allows its employees to purchase in return for a payment of 50% of the cost of a flight ticket set by the Company at an average economy class price, the Company paid fixed tax levels, but in assessments issued for the Company for 2001

to 2005, Income Tax determined that the value of the flight ticket is 214% of the price of an average economy class ticket

c In addition, the assessments issued for 1998 through 2002 included tax debits for employees stationed abroad for periods of over 4 years as well as for a tax offset paid by Company employees in the U S

The Company has appealed these assessments before the District Court based, among other things, on economic opinions materially different from those of the Income Tax assessments

The parties held talks to resolve the disputes in question and on February 10 2011 the Company's Board of Directors ratified a settlement between the Company and the Ramla tax officer, as follows

a The Company shall pay Income Tax up to and including 2010 a final and absolute sum of 65 million NIS ($18 million as of the reporting date) including payment for the assessments for which the orders were issued for tax years 1998-2005 and the full deduction debts for employee flight tickets and other surplus expenses for 2006-2010

b An agreement regarding the value of flight tickets for Company employees in the purchase of flight tickets on the basis of an available seat and on the basis of a reserved seat, for 2011 through 2013

On February 16 2011 the agreement was confirmed by the court, thus concluding the legal proceedings between the Company and Income Tax regarding the deduction assessments issued for the Company

For all of the above Income Tax requests, up to and including 2010, the Company made financial provisions exceeding the sum of the settlement described above and therefore the Company reduced the sum of the provision listed in its books and recognized other revenues to the amount of $22 25 million in its 2010 Financial Statements under "other revenues"

In addition to the above, as of December 31 2010 an appropriate provision exists in the Company's books for Social Security commitments deriving from the settlement with Income Tax

g. Final Tax Assessments

The Company has received final tax assessments up to and including 2002 In addition, the Company has received tax assessments considered final up to and including tax year 2006 Chief subsidiaries have received tax assessments considered final for up to and including tax year 2006

Note 29 - Pending Liabilities, Guarantees and Commitments

a. Pending Liabilities

In the matter of lawsuits see Note 27c above

b. Safety Rating Decrease

On December 19 2008 the U S Federal Aviation Agency (FAA) announced that it would be lowering the flight safety rating of the State of Israel to Category 2 This announcement refers to the level of civil aviation safety supervision in the State of Israel on behalf of Israeli aviation authorities, including the Civil Aviation Authority at the Ministry of Transportation Although the FAA announcement was not issued against the Israeli airlines and the inspection or safety rating do not derive from the abilities or safety status of Israeli airlines, the implication of the announcement is the placing of active limitation on airlines flying from Israel to the U S , including the Company, pertaining to, *inter alia*, restrictions on increased activity, examining Israeli airlines in the U S as well as restrictions on code sharing agreements with U S airlines

The effects of the rating decrease may harm the Company, including by freezing bilateral agreements and the inability to alter existing agreements, freezing commercial agreements without the possibility of submitting requests for added frequencies, adding flight times, changing destinations or receiving new flight destinations, freezing airlines' operational operator's licenses and the inability to add or integrate new aircraft on these routes, damaging code sharing agreements, careful examination of planes arriving at the U S from Israel, which may lead to significant delays in planned flight schedules

Note that in March 2009 the Company addressed a letter to the Minister of Transportation and Road Safety in which it noted that the State was responsible for the decreased flight safety rating and the damages caused the Company as a result

The State of Israel's safety rating remained unchanged in 2010 and it has yet to be raised back to Category 1 by the FAA and the Company has no knowledge regarding the date the restoration of Category 1 will occur

c. **Guarantees:**

Composition of guarantees provided by the Group to third parties	As of December 31 2010	As of December 31 2009
	Thousands of Dollars	Thousands of Dollars
To secure employee retirement programs	4,949	4,653
To secure employee loans	207	221
To secure subsidiaries' liabilities	-	100
To aviation authorities, customs authorities and other third parties	4,830	7,920
	9,986	12,894

d. **Commitments**

1. **Leasing and rental fees**

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

b For details on of the minimum lease fees for the fixed components (but excluding the payment for the maintenance reserves) payable for the lease of aircraft and payments to the IAA, see Note 26 (3)

c 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

2 **Commitments with the Israel Airports Authority (IAA):**

a The Company has a usage right (permit) to 290 hectares of land at BGN until December 31 2010, with an option to renew it for an additional 25-year period
The Company is currently negotiating with the IAA regarding the extension of the agreement

Prior to privatization, on May 19, 2003, the Company and the IAA, 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 IAA

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, an amendment was added to this agreement, according to which in addition to the payment for the land, the Company shall pay the IAA annual usage fees for certain fully depreciated buildings and installations

c The Company has a usage fee agreement (permit) with the IAA for a passenger service warehouse in BGN encompassing 4,380 square meters The annual usage fees are $480 thousand The agreement shall be in effect until December 31, 2012

d The Company has usage rights to areas in BGN airport for its cargo shipping activity, which include the Maman Building compound, amounting to 275 sq meters in size, in return for yearly usage fees of $140 thousand This agreement was extended to March 31

2014 and starting April 2011 and additional space of 170 square meters was added in return for additional yearly usage fees to the amount of $80 thousand These agreements include an option to extend to December 31 2015

e The Company is obliged to pay flight fees, airport taxes and permit fees to the IAA The Company enjoys the maximum reduced rate due to the volume of its activity at BGN

f In November 2004, within the framework of Ben Gurion 2000 project, the IAA opened Terminal 3 In light of the transfer of some of the Company's activity to Terminal 3, an agreement was signed in December 2006 between the Company and the Airport Authority regarding the use of the Terminal 3 passengers' lounge

The agreement shall remain in effect until November 2011, for total consideration $2 8 million a year Additionally, agreements were signed to grant permission for other areas in Terminal 3 until November 2014, in return for rental fees of $2 3 million a year

In April 2000, the Company signed a new agreement-in-principle for leasing an area of 20 hectares in order to set up a maintenance center, a hangar and supporting facilities within the framework of Ben Gurion 2000 project The IAA council ratified the transaction, but the agreement is subject to the signing of a detailed agreement between the parties as well as the ratification by the Company's Board of Directors As of these statements, no detailed agreement has yet been signed between the parties

3. 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 Some of the agreements are based on time & materials while others are based on cost per hour flown

Regarding engine maintenance agreements, see Note 16I

4. Code Sharing Agreements with Foreign Airlines:

In March 2010 a code sharing agreement signed with Air China in June 2009 came into effect In a later stage the Company intends to add its code to internal Air China flights from Beijing to other Chinese destinations, both ways, and possibly on international Air China flights (subject to regulatory approval from third nations)

Regarding the code sharing agreement signed December 2009 with Turkish airline Atlas Jet, which was expected to come into effect in June 2010, the Company and Atlas Jet decided via mutual consent and in light of the situation following the flotilla events to freeze activity on the line to Istanbul until further notice

In November 2010 the Company signed a code sharing agreement with Russian airline Siberia Airlines (hereinafter "S7") on the Tel Aviv-Novosibirsk route The purpose of the agreement is to expand the Company's Russian destinations and open the door to expanding cooperation to additional Russian destinations The agreement is based on a two-way free sale format and shall apply to the Company's flights to Moscow and to S7 flights to Novosibirsk connecting to these flights, both ways The sale shall be made directly from the seat inventory of each of the companies, while defining the appropriate listing classes and price levels for each class and each flight segment The agreement was approved by the Minister of Transportation and Road Safety and the Restraint of Business Commissioner, as required, and came into effect and has been applied starting late December 2010

In November 2010 the Company signed a code sharing agreement with Bulgaria Air on the Tel Aviv-Sofia route The chief purpose of the agreement is to provide the Company's customers with an improved product and the agreement shall apply to all the flights each party operates on the route, in a block space format, and accordingly, each party will offer the other part of the aircraft's load for sale in flights operated by them Note that a code sharing agreement had existed between the parties for the route up to 2009, before it was cancelled in light of the absence of approval from the Restraint of Business Supervisor The current agreement requires the approval of the Restraint of Trade Commissioner and the Minister of Transportation and Road Safety as well as approvals by relevant Bulgarian authorities, as a precondition for its activation

In December 2010 a code sharing agreement was signed with Armenian airline Armavia Air (hereinafter "Armavia") on the Tel Aviv-Yerevan route The agreement is based on a soft block format, and according to it Armavia shall provide the Company with seats for sale on both of Armavia's weekly flights on the route The agreement was approved by the Armenian aviation authorities and by the Israeli Minister of Transportation and Road Safety and the Restraint of Trade Commissioner and is expected to come into effect starting late March 2011

In December 2010 the Company signed a code sharing agreement with Ukrainian airline Aerosvit, for the Tel Aviv-Kiev route The agreement is according to a two-way free sale format and shall apply to wither party's flights in accordance with the terms of the agreement The sale shall be made directly from the seat inventory of each of the companies, while defining the appropriate listing classes and price levels for each class and each flight segment Note that a code sharing agreement had existed between the parties in the past, in a block space format This agreement was cancelled in 2009 due to the lack of an approval from the Restraint of Trade Commissioner The current agreement requires the approval of the Restraint of Trade Commissioner and the Minister of Transportation and Road Safety as well as approvals by relevant Ukrainian authorities, as a precondition for its activation

The Company signed a cooperation agreement (on an interline basis) with American airline Jet Blue Airlines, which operates a large volume of domestic U S flights departing from JFK Airport in New York The agreement came into effect in November 2010, allowing the Company to offer a variety of new continuing destinations throughout the U S, Latin America and the Caribbean

Note 30 - Shareholders' Equity

a. General

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 of Israel, the Company's securities were registered for trade on the Tel Aviv Stock Exchange in June 2003
According to the Prospectus, the Company issued 49,000,000 registered ordinary shares (OS) worth 1 NIS NV with total par value of 49,000 thousand NIS, together with 396,000,000 options and buy options registered to bearer

b. The Company's Share Capital as of December 31, 2010:

	Registered		Issued and Paid-Up	
	Special Shares	Ordinary Shares	Special Shares	Ordinary Shares
	1 NIS NV	1 NIS NV	1 NIS NV	1 NIS NV
	NIS	NIS	NIS	NIS
Balance – December 31 2008	1	550,000,000	1	495,719,135
Balance as of December 31 2009	1	550,000,000	1	495,719,135
Balance as of December 31, 2010	1	550,000,000	1	495,719,135

c. In the period from January 1 2007 through June 5, 2007, the public exercised 94,930,801 options (Series 1) for the same number of ordinary shares worth 1 NIS NV each, issued by the Company, in return for $31,820 thousand

These proceeds were deposited in the severance pay fund of entitled employees, except for 30 4 million NIS (including interest accrued as of the report date) not yet deposited, as in Note 23 c 3 b

d. On March 23, 2006, the General Meeting of the Company approved the increase of the Company's authorized share capital by 54,279,453 NIS, bringing the total to 550,000,001 NIS after said increase, divided into the State's special share worth 1 NIS NV and 550,000,000 ordinary shares registered to bearer worth 1 NIS NV each

e. The Rights Associated with the Special State Share:

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

1 Maintaining the Company as an Israeli company, subject to Israeli law,
2 Keeping the operating capability and the flight capability of carrying passengers, and cargo, above a minimum established level,
3 Preventing any hostile interests from taking over the Company,
4 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 all times, 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 flight capacity which the Company is required to maintain as stipulated by directives of the Special State's Share As of the approval date of the financial statements, the provisions of this order did not require that the Company make any changes in its method of operations or in the composition of employees

f. Dividend Distribution Policy

On November 20, 2007, the Company's Board of Directors resolved to update its dividend distribution policy Pursuant to this policy, the Company will distribute dividends from time to time, at the discretion of the Board of Directors and subject to the Company's needs
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

g. Senior Employee Option Plan:

1 On February 26, 2006, the Company's Board of Directors 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 confirmed that the number of options that would serve as a pool for allotment under the Plan would stand at 17,092,129 options, exercisable for 17,092,129 ordinary Company shares of worth 1 NIS NV 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 Company executives 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 the allotment was executed on the same date

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 2 9733 NIS The exercise price is the theoretical price not paid by the employee In the event that the option is exercised, the employee will be entitled to 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 (3 837 NIS) The exercise price is 85% of the share price on February 26, 2006 –2 973 NIS

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 worth 1 NIS NV each

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

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 made during March 2006, and to whom the theoretical exercise price was set at 2 9733 NIS

After the Human Resources and Appointments Committee decided on December 27, 2006 to allocate 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 1 8894 NIS, 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 (2 08 NIS) 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, that being 1 89 NIS All options granted but not exercised will expire and be nullified 3 years from the date each option vested

3. On November 20 2007, the Company's Board of Directors resolved to publish an additional outline for the purpose of allotting options located in the options pool available for allotment, in accordance with the option plan for compensation of Company executives and other employees, as discussed in g 1 and g 2 above, the balance of which as of that date is 3,382,843 options The options will be exercisable for up to 3,382,843 ordinary Company shares worth 1 NIS NV each

The Board of Directors approved the appointment of a Human Resources and Appointments Committee to continue serving as the administrator of the option plan, 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, that being 2 01 NIS

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 from 2008 up to and including 2011 All options granted but not exercised will expire and be nullified 3 years from the date each option vested
Pursuant to this, on December 26, 2007, 2,195,852 options were allotted to six additional executives

4. None of the options in the three plans will be registered for trade on the stock exchange, although the shares derived from the exercise of options will be registered for trade on the stock exchange The options will be allocated to a trustee in accordance with Section 102 of the Income Tax Ordinance

5. According to the provisions of Accounting Standard No 2 (Stock-Based Payment), the Company records 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 lifespan 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 conclusion of the vesting period

The following is a summary of the parameters used in the model

	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
Lifespan 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 listed in 2008 in thousands of NIS	3,005	638	1,065
Expense listed in 2009 in thousands of NIS	1,071	27	156
Expense listed in 2010 in thousands of NIS	-	51	146
Expense listed in 2008 in thousands of dollars	838	179	299
Expense listed in 2009 in thousands of dollars	275	6	40
Expense listed in 2010 in thousands of dollars	-	14	39
Expense projected in 2011 in thousands of NIS	-	-	47

	Number of Options		
	Plan A	**Plan B**	**Plan C**
Outstanding as of January 1, 2008	13,636,750	3,072,536	2,195,852
Waived	(1,959,605)	-	-
Outstanding as of December 31 2008	11,677,145	3,072,536	2,195,852
Exercisable as of December 31, 2008	**5,838,573**	**1,536,268**	**548,963**
Outstanding as of January 1 2009	11,677,145	3,072,536	2,195,852
Waived	(301,651)	(906,538)	(492,394)
Outstanding as of December 31, 2009	11,375,494	2,165,998	1,703,458
Exercisable as of December 31, 2009	8,531,621	1,624,499	851,729
Outstanding as of January 1 2010	11,375,494	2,165,998	1,703,458
Waived	(4,722,065)	(1,005,172)	(581,920)
Outstanding as of December 31 2010	6,653,429	1,160,826	1,121,538
Exercisable as of December 31 2010	6,653,429	1,160,826	841,154

6. **Service Agreement and Option Allocation to the Chairman of the Company's Board of Directors**

On April 30 2009, the Company Audit Committee and the Board of Directors decided to approve the Company's agreement with the Chairman of the Company's Board of Directors - Mr Amikam Cohen (hereinafter – "the Chairman of the Board") to provide Chairman services retroactively starting February 1 2009 (hereinafter – "the Service Agreement"), the key points of which are described in Note 38d below

The Company Audit Committee and the Board of Directors decided to approve the issue of non-tradable options to the Chairman of the Company's Board of Directors (hereinafter – "the Options Plan") The options shall be granted within the framework of the agreement to provide services as Chairman of the Company's Board of Directors
On June 24 2009 the General Meeting ratified the Service Agreement and option issue to the Chairman of the Company's Board of Directors

The Company shall grant the Chairman of the Board 4,650,000 non-tradable options exercisable as 4,650,000 ordinary Company shares worth 1 NIS NV each (hereinafter – "the Exercise Shares") The options shall be allocated free of charge Assuming the exercise of all the options, the Exercise Shares shall constitute 0 95% of the Company's paid-up capital (including fully diluted) The Company has the option of stating that exercise of the options shall take place in return for Company shares of an amount reflecting the sum of the financial benefit embodied in the options alone (cashless exercise) and in the event that the Company chooses this option, the amount of shares actually issued shall be smaller than the rate denoted above

The options may be exercised as Company shares, subject to adjustments and as detailed below

<u>Vesting</u> – The right to exercise the option shall vest in three portions which shall vest throughout the Chairman of the Board's service at the Company, as follows

a 12 months from the beginning of the Chairman's service, that being February 1 2009 (hereinafter – "the Allocation Date"), the Chairman of the Board shall acquire vesting for the exercise of 1/3 of the options
b 2 years from the allocation date, the Chairman shall acquire vesting for an additional 1/3 of the options
c 3 years from the allocation date, the Chairman shall acquire vesting for an additional 1/3 of the options

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

Exercise Price – The exercise price of each option shall be 0 885 NIS, the closing price of a Company share on February 1 2009, which is when the Chairman of the Board began his tenure, subject to adjustments established in the Option Plan

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

Assessing the Fair Value of the Options

The fair value of the above options is assessed using the application of the Black & Scholes model (as well as reference to Binomial options pricing model for comparison) Within this framework, the Company did not take the influence of the vesting conditions into account
The value of the options, based on the following parameters, for the date on which the option plan was approved by the Company's General Meeting was 1,310 thousand NIS ($332 thousand on that date)

The parameters used in the application of the model, as of June 24 2009, are as follows:

Share price (in NIS)	0 879
Exercise price (in NIS)	0 885
Expected fluctuation (*)	45% - 42%
Option lifespan (in years) (**)	3 7 - 2 4
Risk-free interest rate	3 3% - 2 3%
Expected dividend rate	0%

	Thousands of NIS	Thousands of Dollars
Expense listed in 2009	782	200
Expense listed in 2010	397	106
Expense projected for 2011	129	
Expense projected for 2012	3	

(*) The expected fluctuation is determined based on historic fluctuations in the price of the Company's share

(**) The lifespan of the options is determined in accordance with the assumption that their exercise is expected to take place in the average period between the vesting period and the end of the options' lifespan

7. **Option Allocation to the Company CEO:**

On October 21 2009, the Company's Board of Directors decided to appoint Mr Elyezer Shkedi as the Company's new CEO (hereinafter – "the CEO") On January 6 2010 the Company's Audit Committee and Board of Directors ratified the CEO's terms of employment, detailed in Note 38f

The Company Audit Committee and the Board of Directors decided to approve the issue of non-tradable options to the CEO, as part of the terms of his employment The Company shall grant the CEO 9,914,382 options exercisable as 9,914,382 ordinary Company shares worth 1 00 NIS NV each which constitute, as of the signing of the agreement, 2% of the Company's paid-up capital and 1 90% fully diluted The options have been granted in accordance with the Company's 2006 option plan and in accordance with the option agreement with the CEO
Note that the CEO or the Company has the option of stating that exercise of the options will take place in return for Company shares of an amount reflecting the sum of the financial benefit embodied in the options alone (cashless exercise) and in such a case, the amount of shares actually issued shall be smaller than the rate denoted above

The options may be exercised as Company shares, subject to adjustments and as detailed below

<u>Vesting</u> – The right to exercise the option shall vest in three equal yearly portions (one third each year) throughout the CEO's first three work years, starting November 1 2009 In the event of the discontinuation of the CEO's employment after the end of the first work year the options shall vest on a quarterly basis In the event of the discontinuation of the CEO's employment within six months after a change of control, all options allocated to the CEO the vesting date of which has yet to be reached shall vest immediately, and they shall be exercisable within 12 months from the date on which the CEO stopped working in practice

<u>Exercise Price</u> – The exercise price of each option shall be 0 965 NIS, the closing price of a Company share on November 1 2009, which is when the CEO began his term in office

<u>Exercise Period</u> – Any portion of options vested may be exercised up to 60 months from the vesting date of that portion, or at the end of twelve months from the actual end of the CEO's employment

Adjustments – the amount of options and/or the exercise price, as the case may be, shall be subject to adjustments as detailed in the agreement with the CEO, including adjustments due to dividends and due to merger/sales agreements

Assessing the Fair Value of the Options

The fair value of the above options is assessed using the application of the Black & Scholes model (as well as reference to Binomial options pricing model for comparison)
The value of the options, based on the following parameters, for the date on which the option plan was approved by the Board of Directors, January 6, 2010 is 3,847 thousand NIS (some $1,029 thousand on that date)

The parameters used in the application of the model, as of June 24 2009, are as follows.

Share price (in NIS)	0 968
Exercise price (in NIS)	0 965
Expected fluctuation (*)	43% - 40%
Option lifespan (in years) (**)	5 3 - 3 9
Risk-free interest rate	4 1% - 3 6%
Expected dividend rate	0%

	Thousands of NIS	Thousands of Dollars
Expense listed in 2009	424	113
Expense listed in 2010	2,344	626
Expense projected for 2011	854	
Expense projected for 2012	225	

(*) The expected fluctuation is determined based on historic fluctuations in the price of the Company's share

(**) The lifespan of the options is determined in accordance with the assumption that their exercise is expected to take place in the average period between the vesting period and the end of the options' lifespan

Note 31 - Financial Instruments

a. Capital Management Policy

The Group manages its capital in order to ensure that the Group's entities may continue to exist as "going concern" while increasing the yield of its shareholders, by preserving an optimal ratio of debt to capital

The capital structure of the Company consist of debt, which includes the loans detailed in Note 22, cash and cash equivalents and shareholders' equity which includes issued capital, capital reserves and retained earnings as detailed in the Report of Changes in Shareholders' Equity

b. Principal Accounting Policies

Details regarding principal accounting policies and methods adopted, including recognition conditions, the basis of measurement and the basis according to which revenues and expenses were recognized relative to each group of financial assets, financial liabilities and capital instruments are presented in Note 2

c Financial Risk Management Goals

The Company has a Market Risk Management Committee headed by Mr Nadav Palti, which is responsible for determining the policies to cover existing exposures The CFO is responsible for the execution of the policies and for reporting to the Market Risk Management Committee.

The Company's financial division provides services to its business activity, provides access to local and international financial markets, supervises and manages the financial risks involved in the Company's activities by way of internal reports that analyze levels of exposure to risk according to degree and strength These risks include market risks (including currency risk, interest rate risk and jet fuel price risk) credit risk and liquidity risk

The Company reduces the influence of these risks by the use of derivative financial instruments in order to hedge its exposure to risk Use of the derivative financial instruments is in accordance with Group policy approved by its Board of Directors, which sets written principles regarding currency risk management, interest rate risk, jet fuel price risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of surplus liquidity Compliance with policy and with permitted exposure levels is supervised by the Risk Management Committee on a continuous basis
The Market Risk Management Committee instructs Company Management from time to time to deviate from said policy for limited amounts of time, in accordance with market developments

d. Market Risk

The Group's activity primarily exposes it to financial risks of changes in the exchange rates of foreign currency (see Section e below), changes in interest rates (see Section f below) and price risk due to jet fuel prices (see Section g below) The Group holds a variety of derivative financial instruments in order to hedge its exposures to market risks, which include

- Forward agreements for swapping foreign currency for the reduction of the Company's exposure from salary and local supplier payments in NIS
- IRS swap agreements to reduce the risk deriving from increases in interest rates

- Swap agreements ands options for projected purchases of jet fuel for the reduction of exposure to changes in jet fuel prices

Over the course of the reported period, no change occurred in market risk exposure factors or in the way the Group manages or measures risk

e. Currency risk

Most of the Company's revenues and expenses are in foreign currency (mainly the USD), other than a number of expenses in NIS, primarily most salary expenses 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 payments over receipts 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)

The carrying amounts of the Group's financial assets and liabilities denominated in foreign currency are

	Assets		Liabilities	
	As of December 31		As of December 31	
	2010	2009	2010	2009
	Thousands of Dollars			
Euro or linked	20,060	18,541	28,749	27,050
NIS	56,019	29,706	39,692	26,918

Foreign Currency Sensitivity Analysis

The Group is exposed primarily to the euro and NIS

The following table details the sensitivity to a 10% increase or decrease in the appropriate exchange rate 10% is the sensitivity rate used in reports to key administrative personnel, and this index represents Management's estimates regarding the likely possible changes in exchange rates The sensitivity analysis includes existing balances of financial items denominated in foreign currency and adapts their translation at the end of the period to a 10% change in foreign currency rates

A positive number in the table represents an increase in earnings or in loss and an increase in equity when the dollar grows 10% stronger in comparison to the currency in question, or a decrease in earnings or loss and a decrease in equity when the dollar is weakened by 10% compared to the currency in question

The influence of a 10% increase in the dollar versus the other currencies, before tax influence

	NIS Influence		Euro Influence	
	As of December 31		As of December 31	
	2010	2009	2010	2009
	Thousands of Dollars			
Profit or (loss)	(1,484)	(254)	790	773

Forward Agreements for Foreign Currency Swaps

From time to time, the Company examines the need to invest in derivative financial instruments to reduce its 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

In order to reduce exposure to the USD/NIS exchange rate, in 2009-2010 the Company conducted several transactions the purpose of which was to hedge part of the Company's expected NIS payroll payments for a period of up to one year from the end of the reported period
These transactions are recognized as cash flow hedges for accounting purposes
The fair value of the forward agreements for foreign currency swaps as of the balance sheet date was established using published future exchange rates and yield curves deriving from published interest rates matching the repayment dates of the contracts denominated in foreign currency

Over the course of 2010 the Company conducted an in-depth examination of its foreign currency hedging policy, following this examination, in December 2010 the Company Board of Directors decide to change its financial risk hedging policy, in accordance with the recommendations of the Market Risk Management Committee and Company management
According to the Company's revised policy, the Company shall hedge is expected cash flow exposure at a rate of 75% for the coming 12 months on a monthly basis The extant of the hedging shall be determined by management

Cash Flow Hedging

The following table details the base sums of the transactions and the remaining terms of forward agreements for foreign currency swaps, as they exist as of the balance sheet date

	Average Exchange Rate USD – NIS	Sums of Transactions	Fair Value
		Thousands of Dollars	
Cash Flow Hedging			
Up to 11 months	3 82-3 84	165,000	12,170

Regarding the Group's accounting policy regarding cash flow hedging, see Note 2o

Over the course of the year, equity increased by a sum of $5,647 thousand after tax, due to the effectiveness of cash flow hedging as a defense against cash flow risk due to exchange rates

Subsequent to the balance sheet date, in February 2011, the Company entered into additional financial transactions intended to protect the Company from drops in the exchange rate of the USD vs the NIS for a period of 13 months ending February 2012 These transactions are recognized as cash flow hedges for accounting purposes

Sensitivity Analysis of Forward Agreements for Foreign Currency Swaps

The sensitivity analysis is determined on the basis of exposure to foreign currency exchange rates of derivative and non-derivative financial instruments as of the balance sheet date The sensitivity analysis was prepared under the assumption that the sum of assets as of the balance sheet date remained unchanged throughout the entire reporting period For the purpose of reporting on foreign currency rate risk internally for key management personnel, an increase or decrease rate of 10% was used, representing Management's policy regarding reasonable change in foreign currency exchange rates

Assuming that the NIS-USD exchange rates increased/decreased by 10% with all other parameters remaining unchanged, the influence on pre-tax equity would be as follows

Equity as of December 31 2010 would increase/decrease respectively by $16 6 million (as of December 31 2009 it would increase/decrease respectively by $15 million)

f. Interest Risk

The Group is exposed to interest risk as the Company has taken loans at variable interest rates The risk is managed by the Group by maintaining an appropriate ratio between variable interest and fixed interest loans, by making use of interest rate swap contracts The hedging actions are evaluated regularly in order to adapt them to projections regarding the desired interest rate and hedged risk An optimal hedging strategy is guaranteed by adapting the Group's loan mixture and conducting back to back hedging against the payoff tables of existing loans

Over the course of 2010 the Company conducted an in-depth review of its interest hedging policy As a result of this review, in late December 2010 the Company Board of Directors decided to continue with its existing interest hedging policy, in which the Company hedges its cash flow exposure to the LIBOR interest rate (exposure deriving from Company loans), at a scope of up to 50% of total exposure for a horizon of up to 5 years Interest rate hedging shall be carried out using financial instruments (such as IRS) or by taking some of the loans at fixed interest

The Group's exposure to interest rates for financial assets and liabilities is described in the section on liquidity risk management in this Note below

Over the course of the reported year no material change occurred in interest risk exposure factors or in the way the Group manages or measures risk

Interest Rate Swaps

Within the framework of interest rate swap agreements, the Group entered into contracts to replace differences between fixed and variable interest rate sums calculated for agreed-upon listed principal sums These contracts allow the Group to reduce the risk from variable interest rates to the fair value of an issued debt at fixed interest and exposure of the cash flow of a debt issued at variable interest The fair value of the interest rate swaps as of the balance sheet date is established by capitalizing future cash flows using curves as of the balance sheet date and the credit risk inherent in the contract as stated below The average interest rate is based on the balances existing at the end of the year

Cash Flow Hedging

The following tables detail the fixed contractual interest rate, unpaid balance and the fair value of the interest rate swap agreements, recognized as cash flow hedging, in existence as of the balance sheet date

Paying Fixed Interest Receiving Variable Interest	Interest Rate Fixed by Contract		Unpaid Balance		Fair Value	
			As of December 31		As of December 31	
	2010	2009	2010	2009	2010	2009
	%	%	Thousands of Dollars			
Up to one year	4 093	4 105	16,333	99,750	(300)	(2,659)
Between 1 and 2 years	-	4 093	-	21,000	-	(899)
			16,333	120,750	(300)	(3,558)

The interest swap agreements are cleared on a quarterly, semiannual or annual basis according to the payoff table of the loan for which the hedging agreement was made The Group intends to pay off the differences between variable and fixed interest rates on a net basis

Regarding the Group's accounting policy in the matter of cash flow hedging, see Note 2o

Interest Rate Swap Agreements Not Recognized as Hedging for Accounting Purposes

In one agreement signed with two banks in Israel, the Libor was fixed for a five-year period (later extended by an additional year), 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

In the second 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 This transaction was carried out at a premium This agreement was concluded September 2009

In two additional agreements not recognized as hedging agreements for accounting purposes, conducted with Israeli banking corporations, the Libor variable interest rate was replaced so that a fixed maximum interest rate was set, constituting a hedge against an increase in variable interest rates past this degree, while on the other hand a minimal interest was set, so that if the variable interest rate drops below the minimum level, the Company waives this profit These transactions were carried out as follows the first for an opening principal amount of approximately $244 million, gradually decreasing based on a loan amortization schedule over a two-year period starting January 2006 This transaction was concluded in January 2008, 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 decreasing based on a loan amortization schedule over a one-year period starting January 2010 This transaction was concluded in January 2011

In three additional agreements not recognized for accounting purposes as hedging transactions, executed with an Israeli banking corporation, the Libor variable interest rate was exchanged for a fixed rate These transactions were carried out on an opening principal sum of approximately $276 million, gradually decreasing based on the loan amortization schedules This was for periods of between one and two years, starting from the second half of 2010 These transactions are expected to reach their conclusion over the course of October 2011, January 2012 and October 2012

The fair value of these interest rate swap instruments, not recognized as hedging for accounting purposes, as of December 31 2010 is a $21,768 thousand liability (as of December 31 2009, a $20,412 thousand liability)

<u>Interest Rate Swap Agreements Recognized as Cash Flow Hedging for Accounting Purposes</u>

In two additional agreements 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 sum of approximately $138 million, gradually decreasing based on a loan amortization schedule over a period of five years and three months starting July 2005 – this transaction was concluded in October 2010, and the second, on an opening principal amount of approximately $40 million, gradually decreasing based on a loan amortization schedule starting October 2005 – this transaction is expected to be concluded in April 2011

The fair value of these interest rate swap instruments recognized as cash flow hedging for accounting purposes as of December 31 2010 is a $300 thousand liability (as of December 31 2009, a $3,558 thousand liability)
Over the course of the year, equity increased by $2,444 thousand after tax, due to the effectiveness of cash flow hedging as protection against cash flow risk due to interest rates (in 2009 an increase in equity after tax of $422 thousand)

<u>Interest Rate Sensitivity Analysis</u>

The sensitivity analysis is determined based on the exposure to interest rates of derivative and non-derivative financial instruments as of the balance sheet date The sensitivity analysis regarding variable interest liabilities was prepared under the assumption that the sum of the liability as of the balance sheet date remained the same throughout the reported year For the purpose of reporting on interest rate risk internally to key management personnel, use was made of increases and decreases of 75% (in 2009 – increases and decreases of 75%), representing Management's estimates regarding likely possible changes in interest rates

Assuming that interest rates increase/decrease by 75% in 2010 and the remaining parameters remain unchanged, the pre-tax influence was as follows

a The profit for the year ending December 31 2010 would increase/decrease by $1,777 thousand and $1,805 thousand, respectively

b Capital reserves due to interest hedging rates as of December 31 2010 would increase/decrease by $271 thousand and $273 thousand, respectively

Assuming that interest rates increase/decrease by 75% in 2009 and the remaining parameters remain unchanged, the pre-tax influence was as follows

c The profit for the year ending December 31 2009 would increase/decrease by $9,381 thousand and $9,879 thousand, respectively

d Capital reserves due to interest hedging rates as of December 31 2009 would increase/decrease by $142 thousand and $144 thousand, respectively

g. Jet Fuel Price Risk

The Market Risks Management Committee prescribes the scope and manner of hedging of future consumption of jet fuel (hereinafter jet fuel) The significance of the financial hedging of jet fuel prices is to guarantee the range of jet fuel purchase prices In the event of a decrease in jet fuel prices, which is guaranteed beyond the range, then the Company pays the difference In the event of an increase in jet fuel prices, the Company receives the difference from the guaranteeing company (mainly overseas banks)
The goal of the hedge of jet fuel prices is to hedge the Company's exposure to changes in global jet fuel prices
Accordingly, the hedging policy is as follows hedging amounts of jet fuel up to 24 months forward so that each quarter of the period in question has a minimal hedging rate set from all expected exposure and a maximum hedging rate from all expected consumption in a gradual and descending manner Accordingly, the maximum hedging rate is 80% and the minimum hedging rate is 20%
The Company is exposed to changes in the fair value of these financial instruments as a result of changes in market prices

As of December 31 2010, the Company entered into several agreements to hedge jet fuel prices, at 33% of the expected consumption for 2011 and 5% of the consumption expected for 2012

No material change occurred over the course of the year in jet fuel price risk exposure factors or in the way the Group manages or measures the risk, this due to fuel consumption rates similar to the comparable period last year

Over the course of the year equity increased by $57,813 thousand after tax due to the effectiveness of cash flow hedging as protection against cash flow risk due to changes in jet fuel prices (in 2009 an increase in equity after tax to the amount of $76,821 thousand)

Over the course of 2010 the Company conducted an in-depth review of its jet fuel hedging policy with the assistance of an outside consulting company
The Risk Management Committee of the Board of Directors discussed the conclusions in the consultants' report and the Company implemented the recommendations accepted by the Committee Starting from the second half of 2010 the Company expanded and deepened its capabilities in the field of financial exposure management, while implementing advanced IT systems granting it better capabilities for measuring, analyzing and controlling changes in exposure and in its hedging portfolio
Following this application, in late December 2010 the Company Board of Directors decided to change its financial risk hedging policy, in accordance with the recommendations of the Market Risk Management Committee and Company management
According to the Company's revised policy, the Company will continue to hedge its market risks in the field of jet fuel as follows

Jet fuel hedging will be carried out for a period of 12-24 months forward, on a monthly basis and at decreasing rates,
For the coming month the Company shall hedge at least 60% of its jet fuel consumption and at most 75%
These percentages will decrease by 5% each month until the 12th month
For the 13-18th months Company management will be given the option of hedging up to 20% of the Company's expected jet fuel consumption (with no minimum hedging obligation)
For the 19-24th months Company management will be given the option of hedging up to 10% of the Company's expected jet fuel consumption (with no minimum hedging obligation)
Hedging shall be carried out using various financial instruments as decided by management (price fixing, options and various option structures), using appropriate base assets such as jet fuel, crude oil or refined oil
At least 20% of the hedging shall be carried out using options, and the balance via options and/or price fixing, at Company management's full discretion

Regarding sales and purchase transactions the Company carried out after the report date, see Note 42

Sensitivity Analysis of Jet Fuel Prices

The following sensitivity analysis was established based on the exposure to fuel price risks on the reported date Use was made of increase and decrease rates of 15%, which represent Management's estimates regarding possible changes in jet fuel prices

If jet fuel prices were 15% higher/lower in 2010(2009 15%), the pre-tax influence would be as follows

- The net profit for the year ending December 31 2010 would be unchanged as all jet fuel hedging transactions open as of December 31 2010 would be recognized as cash flow hedging for accounting purposes (for the year ending December 31 2009 the profit would be unchanged), and

- Capital reserves for jet fuel hedging agreements would increase/decrease by $36 3 million as of December 31 2010 (increase/decrease by $46 6 million as of December 31 2009)

Regarding the liquidity risk of the derivative agreements for the reduction of the exposure due to changes in jet fuel prices, see j below

Regarding jet fuel price increases subsequent to the reported date, see Note 42 1

h. Exposure to the Prices of Capital Instruments of Other Entities

The Group is exposed to risk from the price of shares and options to purchase shares of Maman, presented at fair price as of December 31 2010, see Note 39a
These investments are held for strategic purposes The Company did not engage in any active trade in these investments
The book value of the investment exposed to the Maman share price risk as of December 31 2010 is $10,324 thousand (the value of the investment in shares is $5,964 thousand, and the value of the investment in options is $4,360 thousand)

Sensitivity Analysis of the Price of Maman Shares

The following sensitivity analysis was established based on the exposure to the price of Maman shares on the reported date
Use was made of increase and decrease rates of 30%, which represent Management's estimates regarding possible changes in the price of Maman shares
If the price of a Maman share was 30% higher/lower on December 31 2010, the pre-tax influence would be as follows
The profit for the year ending December 31 2010 would increase/decrease by $3 9 million and $3 7 million, respectively

i. **Credit Risk Management**

Credit risk refers to the risk of the opposite side failing to meet its contractual obligations and causing a financial loss to the Group

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

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, insurance on credit (limited in amount) is granted to travel and cargo agents Overseas agents are covered by collateral to the extent generally accepted in that country The Company regularly examines customer compliance with credit terms and includes an appropriate allowance for doubtful debts in its Financial Statements

The carrying amounts of financial instruments listed in the Financial Statements are presented net from devaluation represent the Group's maximum exposure to credit risk, this without taking the value of any security achieved into account

Regarding the aging of delayed financial assets as of the report date the value of which remains unharmed, see Note 8

j. **Liquidity Risk Management**

The ultimate responsibility for liquidity risk management lies with the Board of Directors, which has set an appropriate work plan for management of liquidity risk in relation to management's requirements for financing and liquidity in the short, medium and long terms The Company manages the liquidity risk by preserving banking means and loan means, by constant supervision of actual and expected cash flows and adjusting vesting characteristics of financial assets and liabilities See also Note 36 on means of financing

Interest and Liquidity Risk Tables

1 Financial Assets and Liabilities Not Constituting Derivative Financial Instruments

The following tables list the Company's outstanding contractual maturities in respect of financial assets (liabilities) that do not constitute financial derivatives These tables were prepared based on the non-capitalized cash flows, based on the earliest date by which the Group may be required to receive the asset or repay the liability The table contains cash flows both for interest and for principal

	First Year	Second Year	Third Year	Fourth Year	Fifth Year Onward	Total
	Thousands of Dollars					
As of December 31 2010:						
Interest instruments	(155,121)	(145,054)	(179,709)	(39,383)	(235,072)	(754,339)
Trade payables	(157,912)					(157,912)
Trade receivables	132,960					132,960
Investments in other companies – Maman					10,324	10,324

As of December 31 2010:						
Interest instruments	(89,405)	(155,294)	(145,248)	(179,718)	(274,500)	(844,165)
Trade payables	(128,970)	-	-	-	-	(128,970)
Trade receivables	112,086	-	-	-	-	112,086

2 Derivative Financial Instruments

The following table details the Group's liquidity analysis regarding its derivative financial instruments The table was prepared based on cash receipts (payments) for derivative instruments repaid on a net basis and non-discount gross cash receipts/payments for those derivatives requiring net payoffs When the payment or receipt sum is not fixed, the sum for which disclosure was made is set taking into account projected interest rates as described by the interest receipt curve in effect on the balance sheet date

	Up to 1 Month	1 to 3 Months	Over 3 Months and Up to 1 Year	Over 1 Year and Up to 4 Years	Total
	Thousands of Dollars				
As of December 31 2010:					
Net Cleared Contracts					
Foreign currency swap agreements	1,162	3,800	9,982	-	14,944
Interest rate swap agreements	(3,986)	-	(9,726)	(9,297)	(23,009)
Agreements to reduce the exposure from changes in fuel prices	3,063	7,461	22,744	4,864	38,132
	239	11,261	23,000	(4,433)	30,067
As of December 31 2009					
Net cleared contracts					
Foreign currency swap agreements	-	1,353	5,723	-	7,076
Interest rate swap agreements	(1,537)	-	(7,983)	(17,605)	(27,125)
Agreements to reduce the exposure from changes in fuel prices	(3,898)	(11,801)	(39,544)	2,684	(52,559)
	(5,435)	(10,448)	(41,804)	(14,921)	(72,608)

k. Analysis of Financial Instruments by Linkage Instrument and Type of Currency

	As of December 31	
	2010	
	In USD	In NIS, non-linked
Derivative financial assets:		
Contracts to reduce the exposure from changes in fuel prices	34,311	-
Foreign currency swap agreements	-	12,170
Other investment – Maman	-	10,324
	34,311	22,494
Derivative financial liabilities:		
Fair value via gain/loss		
Interest rate swap agreements	(22,068)	-
	(22,068)	-

l. Financial Instruments not Presented at Fair Value in the Balance Sheet

Other than as set forth in the table below, the Company believes that the book value of the financial assets and liabilities presented at depreciated cost in the Financial Statements are approximately equal to their fair value

	Book Value	Fair Value	Book Value	Fair Value
	As of December 31 2010	As of December 31 2010	As of December 31 2009	As of December 31 2009
	Thousands of Dollars			
Long term fixed interest loans (*)	99,103	90,750	108,541	103,735

(*) The long term fixed interest loans include three loans received in April, May and June 2009 for the purpose of financing the purchase of three new 737-800 planes, see Note 22 d 3 The fair value of these loans is based on calculating the current value of cash flows according to an interest rate of 5 66% applied to similar loans with similar characteristics

m. Financial Instruments Presented at Fair Value in the Balance Sheet

So as to measure the fair value of its financial instruments, the Group classifies the instruments, measured at fair value in the balance sheet, to one of the following three grades

Level 1 Quoted prices (unadjusted) in active markets for identical financial assets and liabilities
Level 2 Data not quoted prices included in Level 1, observed, directly (meaning prices) or indirectly (data deriving from prices) as regards financial assets and liabilities
Level 3 Data regarding financial assets and liabilities not based on observed market data

Classification of financial instruments measured at fair value takes place based on the lowest level in at which material use is made for the purpose of measuring the fair value of the instrument as a whole

The following are the specifics of the Group's financial instruments measured at fair value, by level, as of December 31 2010

Financial assets at fair value:

	Level 1	Level 2	Total
	Thousands of Dollars		
Derivative financial instruments intended for hedging items			
Jet fuel hedging agreements	-	34,311	34,311
Forward transactions for the purchase of foreign currency	-	12,170	12,170
Other investment – Maman	5,964	4,360	10,324
	5,964	50,841	56,805

Financial liabilities at fair value:

	Level 2	Total
	Thousands of Dollars	
Derivative financial liabilities intended as hedging instruments measured at fair value.		
Interest rate swap agreements	300	300
	300	300
Financial liabilities measured at fair value via Statement of Operations.		
Interest rate swap agreements	21,768	21,768
	22,068	22,068

Main assumptions used to establish the fair value of financial instruments:

The fair value of financial assets and liabilities is determined as follows

- The fair value of financial assets and liabilities with standard conditions traded on active markets is determined based on quoted market prices
- The fair value of other financial assets and liabilities (with the exception of derivatives) is determined using accepted pricing methods based on the analysis of capitalized cash flows analyzed through the use of prices from current observed market transactions and quotes from traders in similar instruments
- The fair value of derivative financial instruments is calculated using quoted prices When such prices are not available, use is made of the analysis of capitalized cash flows while applying the appropriate yield curve for the lifespan of the instruments for derivatives not consisting of options and for derivatives consisting of options use is made of option pricing models

Note 32 - Statement of Operations Details

a. Operating Revenues:

Composition:

	For the Year Ending December 31		
	2010	**2009**	**2008**
	Thousands of Dollars	**Thousands of Dollars**	**Thousands of Dollars**
Flying passengers (1)	1,729,115	1,477,409	1,790,769
Less – discounts	(18,880)	(26,387)	(36,471)
	1,710,235	1,451,022	1,754,298
Flying cargo and mail	195,100	142,738	266,055
	1,905,335	1,593,760	2,020,353
Others	66,904	62,073	75,973
	1,972,239	1,655,833	2,096,326

1 The Company recognized $6 7 million in revenues in 2008 for security, fuel and other services surcharges collected from foreign airlines, which up until this date were recognized as a provision, this due to the likelihood that these sums will be required from the foreign airlines This provision was listed to revenues in 2008, in light of the experience accumulated by the Company in the period of time since they were recognized, which clearly shows that the likelihood that these sums will be required from the foreign airlines is small at best

b. Operating Expenses:

Composition:

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars		
Fuel	584,260	475,654	771,192
Salary and associated (including expenses due to employee benefits)	307,537	275,775	303,684
Airport fees and services	159,394	159,973	169,808
Maintenance of aircraft, flight and ground equipment	89,429	91,246	92,517
Air navigation and flight communication	98,168	94,739	100,822
Depreciation	105,333	122,746	107,801
Insurance	6,812	7,139	7,613
Aircraft leasing fees	64,147	53,641	39,340
Meals and supplies	44,192	41,110	42,673
Air crew expenses	44,315	42,415	47,141
Participation in security expenses (see Note 17)	41,068	38,398	43,603
Cost of duty-free products	10,572	10,156	13,158
Other expenses	29,330	31,258	36,977
	1,584,557	1,444,250	1,776,329

c. Sales Expenses:

Composition:

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars		
Agent Commissions	124,887	100,218	137,281
Salary and associated (including expenses due to employee benefits)	51,062	47,219	53,913
Advertising and public relations	11,047	11,547	12,730
Others	27,759	23,978	23,649
	214,755	182,962	227,573

d. General and Administrative Expenses:

Composition:

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars		
Salary and associated (including expenses due to employee benefits)	65,123	57,311	64,856
Professional consultancy	5,574	6,313	6,394
Communications	2,318	3,011	2,876
Rental fees and office maintenance	10,380	10,676	11,083
Insurance	1,993	2,047	2,196
Other expenses	10,765	9,204	9,698
	96,153	88,562	97,103

e. **Other expenses (revenues), net:**

1. **Composition**

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
Expenses in respect of employee retirement plans, net (see Note 23 e and 2 below)	5,106	1,289	9,084
Compensation received (see 3 below)	-	-	(950)
Cancellation of provision for productivity incentives	-	-	(11,400)
Provision for cargo lawsuit (see Note 27 c b 1 and 3)	4,264	435	15,427
Capital gains from the realization of fixed assets (see 4 below)	(672)	(582)	(7,418)
Update of provision due to settlement with income tax (See Note 28f)	(22,250)	-	-
Depreciation of assets (see Notes 16g and 17c)	1,594	13,714	-
Others	689	171	(3,768)
Total	(11,269)	15,027	975

2. Expenses for employee retirement plans in 2010 mainly include the provision for the retirement plan for 11 employees in 2010 to the amount of $2 0 million (in 2009 a retirement plan was included for 6 employees for whom a $0 8 million provision was made and in 2008 a retirement plan was included for 31 employees for which a provision was made to the amount of $4 6 million) The expense also includes the revaluation of liabilities for existing retirement plans following the revaluation of Israeli currency vis-a-vis the dollar as well as a capitalization coefficient for the retirement plans

3. As a result of the discontinuation of operations of a company related to Boeing, with which the Company had an agreement in the past to operate internet systems on some of the Company's aircraft, the Company discontinued this 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 Additional compensation was received from Boeing to the amount of $950 thousand in 2008

4. This section mainly consists in 2010 of capital gains to the amount of $0 4 million from the sale of engine parts of 747-200 airplanes, in 2009 capital gains to the amount of $0.6 million from the sale of two 767-200 engines and in 2008 a capital gains of $4 7 million from the sale of the 767-200 aircraft (marked EAB) and in addition a capital gain of $2 3 million from the sale of two engines

Note 33 - Financing Expenses

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
Loan expenses	13,967	21,532	33,582
Expenses due to interest hedging agreements	11,894	3,797	19,832
Expenses due to the revaluation of Maman options and shares (See Note 39a)	821	-	-
Expenses due to commissions and other bank expenses	4,024	4,858	2,818
Exchange rate differences due to balances not in the functional currency of the Group	5,205	-	4,618
Others	-	110	716
	35,911	30,297	61,566

Note 34 - Financing Income

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars		
Interest income due to short term bank deposits	1,259	783	7,308
Income from foreign currency hedging agreements	7,902	2,625	8,922
Others	1,688	591	739
	10,849	3,999	16,969

Note 35 - Earnings per Share

	For the Year Ending December 31		
	2010	2009	2008
a. Basic Profit per Share			
Earnings (loss) per year charged to the shareholders of the parent company (in thousands of dollars)	57,055	(76,300)	(41,907)
Weighted average of number of ordinary shares used to compute basic earnings per share (in thousands)	495,719	495,719	495,719
b. Diluted Profit per Share			
Earnings (loss) used to calculate diluted earnings per share (in thousands of dollars)	57,055	(76,300)	(41,907)
Weighted average of number of ordinary shares used to compute basic earnings per share (in thousands)	495,719	495,719	495,719
Adjustments			
Options (in thousands)	1,074	-	-
Weighted average of number of ordinary shares used to compute diluted earnings per share (in thousands)	496,793	495,719	495,719

c. **Instruments that could potentially dilute basic earnings per share in the future, but which were not included in the calculation of the diluted revenue per share as their influence was anti-diluting:**

	For the Year Ending December 31		
	2010	2009	2008
Number of options issued in the framework of share-based payment arrangements (in thousands)	15,545	29,809	16,946

Note 36 - Means of Finance

As of December 31 2010, the Company's credit frameworks amounted to a total of $35 million ($35 million as of December 31 2009)
In addition, the hedging institutions provided the Company with unguaranteed frameworks to the amount of $29 million

Note 37 - Segment-Based Reporting

a. **General**

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

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

Segment A – passenger aircraft activity
Segment B – cargo aircraft activity

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

Cargo aircraft activity includes revenues from airborne cargo shipping fees

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

The Company's chief operational decision maker does not receive reports regarding measurement of segment assets and therefore, in accordance with the revision to IFRS 8, this information is not included in the segment reporting

In 2009, Company management decided that in determining the results of the reported operating segments, a number of components not part of the direct costs involved in operating the flights, which have been included to date under "unattributed costs", such as depreciation as a result of aviation equipment, fixed maintenance costs and fixed costs at overseas offices must also be allocated

Operating segment results for 2010 as well as comparison figures in this report are presented according to the format set as noted above b **Analysis of revenues and results according to operating segments:**

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

Unassigned costs primarily include salary costs (with the exception of air crew costs), changes in the fair value of hedging transactions not recognized for accounting purposes and other fixed costs

	For the Year Ending December 31 2010				
	Passenger Aircraft	Cargo Aircraft	Others	Adjust-ments	Total
	Thousands of Dollars				
Revenues					
Revenues from outside customers	1,765,282	87,508	38,790	80,659	1,972,239
Inter-segment revenues	-	-	78,573	(78,573)	-
Total segment revenues	1,765,282	87,508	117,363	2,086	1,972,239
Segment results	251,825	(264)	28,573	-	280,134
Unassigned expenses					(192,091)
Operating profit					**88,043**
Financial expenses					(35,911)
Financing income					10,849
The Company's share of the profits of subsidiaries, net of tax					45
Profit before taxes on income					**63,026**
Income Tax					(5,971)
Yearly profit					**57,055**

In 2010 the Company attributed depreciation expenses to the amount of $85 4 million to the passenger aircraft segment and $5 6 million to the cargo aircraft segment

	For the Year Ending December 31 2009				
	Passenger Aircraft	Cargo Aircraft	Others	Adjust-ments	Total
	Thousands of Dollars				
Revenues					
Revenues from outside customers	1,489,496	58,317	37,874	70,146	1,655,833
Inter-segment revenues	-	-	68,051	(68,051)	-
Total segment revenues	1,489,496	58,317	105,925	2,095	1,655,833
Segment results	112,453	(27,457)	27,457	-	112,453
Unassigned expenses					(187,421)
Operational loss					**(74,968)**
Financial expenses					(30,297)
Financing income					3,999
The Company's share of the profits of subsidiaries, net of tax					442
Loss before taxes on income					**(100,824)**
Tax benefit					24,524
Yearly loss					**(76,300)**

In 2009 the Company attributed depreciation expenses to the amount of $85 8 million to the passenger aircraft segment and $21 2 million to the cargo aircraft segment

	For the Year Ending December 31 2008				
	Passenger Aircraft	Cargo Aircraft	Others	Adjust-ments	Total
	Thousands of Dollars				
Revenues					
Revenues from outside customers	1,832,126	139,474	50,935	73,791	2,096,326
Inter-segment revenues	-	-	76,350	(76,350)	-
Total segment revenues	1,832,126	139,474	127,285	(2,559)	2,096,326
Segment results	218,981	(19,305)	44,453	-	244,129
Unassigned expenses					(249,783)
Operational loss					**(5,654)**
Financial expenses					(61,566)
Financing income					16,969
The Company's share of the profits of subsidiaries, net of tax					543
Loss before taxes on income					**(49,708)**
Income Tax					7,801
Yearly loss					**(41,907)**

In 2008 the Company attributed depreciation expenses to the amount of $75 7 million to the passenger aircraft segment and $16 6 million to the cargo aircraft segment

Presentation by Geographical Segments

	North America	Europe	East and Central Asia	The Rest of the World	Total
	Thousands of Dollars				
2010					
Revenues- Segment revenues	673,030	905,582	299,468	50,268	1,928,348
Revenues not attributed to segments					43,891
Total revenues in the consolidated report					1,972,239
2009					
Revenues- Segment revenues	547,639	797,327	230,468	38,334	1,613,768
Revenues not attributed to segments					42,065
Total revenues in the consolidated report					1,655,833
2008					
Revenues- Segment revenues	712,029	995,984	296,591	46,650	2,051,254
Revenues not attributed to segments					45,072
Total revenues in the consolidated report					2,096,326

Note 38 - Agreements with Related and Interested Parties

a. General

The Company's parent company is K'nafaim Holdings Ltd (hereinafter "K'nafaim"), which is under the control of the Borowich family

b K'nafaim and its Controlling Shareholders

In June 2004, K'nafaim became an interested party in the Company Starting January 2005 K'nafaim became the Company's controlling shareholder As of December 31 2010, K'nafaim holds approximately 39 3% of the Company's shares
The following is a general description of the transactions, their characteristics and scopes included in the framework of operating revenues in 2010 was revenue of $93 thousand from a member of K'nafaim No revenues from members of the K'nafaim Group and its controlling parties were included 2009 and 2008

Within the framework of operating expenses, transactions with K'nafaim and companies in which its controlling parties have a personal interest to the amount of $584 thousand were included in 2010 Expenses totaling $76 thousand were included in 2009 and $156 thousand were included in 2008

Within the framework of sales expenses, transactions via a third party with Company in which the controlling parties at K'nafaim have a personal interest, in the field of advertising, to the amount of $759 thousand were included in 2010

Within the framework of general and administrative expenses executive insurance expenses to the amount of $0 1 million were included in 2010 (in 2009 expenses due to executive insurance to the amount of $0 1 million, in 2008 expenses due to executive insurance and management fees to the amount of $0 5 million) Regarding the management agreement, see d below Regarding the collective insurance agreement, see g below

c. Transactions with additional related and interested parties:

Regarding transactions with additional related and interested parties see r below

d. Remuneration of Board members

On August 6 2008, the Company's Board of Directors decided to increase the remuneration of outside directors as follows meeting participation remuneration and yearly remuneration to external directors serving the Company shall be paid according to the established sum for a company the Company's grade (Grade D), pursuant to the amendment to the Companies Regulations (Rules Regarding Remuneration and Expenses for External Directors) 2000, published March 6 2008 ("the Remuneration Regulations") The increase in remuneration sums begins April 1 2008 The fixed sum in question (as increased in the amendment to the Remuneration Regulations) equals 59,100 NIS as yearly remuneration and 2,200 NIS as remuneration for meeting participation Note that as of this date the external directors were entitled to meeting participation and yearly remuneration according to the sum set in the Remuneration Regulations prior to the amendment

On October 2, 2008, the Chairman of the Company's Board of Directors, Prof Israel (Izzy) Borowich announced that he would be resigning his position as Chairman of the Board, in effect November 30 2008

On December 30 2008 the Company's General Meeting decided to approve for the retiring Chairman of the Board, Prof Israel (Izzy) Borowich, after his departure, the following rights (a) one free flight ticket, once per year, for Mr Borowich and his immediate family (wife and children up to the age of 21) as well as the right to transport personal baggage, (b) an additional three flight tickets per year, at a maximum discount (90%) for Mr Borowich and his immediate family, (c) ticket per year at a discount of 80% for Mr Borowich's children over the age of 30, (d) Mr Borowich's rights and those of his immediate family to free and/or discounted flight tickets and cargo shipping shall be subject to IATA regulations and

Company procedures, (e) in the event that service fees are attached for free or discounted tickets or cargo shipping granted to Company employees – these shall apply to the flight tickets mentioned in Sections a-b above, (f) Mr Borowich's rights and those of his immediate family to reservation arrangements and seating shall be in accordance with Company procedure as regards retiring employees of similar rank and seniority, (g) the Company shall bear no expenses (tax, surcharges etc) regarding the issue of the flight tickets and/or the flight It is hereby made clear that there shall be no redundancy of benefits between the entitlement denoted in this decision and the entitlement to flight tickets as director (so long as he continues to serve on the Company's Board of Directors)

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

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

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

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

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

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

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

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

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

On January 21 2009 the Company's Board of Directors decided to appoint Mr Amikam Cohen as Chairman of the Company's Board of Directors, starting February 1 2009

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

1) A monthly salary of NIS 90 thousand plus VAT linked to the CPI (hereinafter – "the Remuneration"),

2) 4,650,000 non-tradable options exercisable as 4,650,000 regular 1 NIS NV shares The option plan and the service agreement were ratified by the Company's General Meeting on June 24 2009 For details regarding this option plan, see Note 30 g 6
3) Benefits pertaining to the receipt of flight tickets from the Company,
4) Reasonable expense reimbursements for travel, hosting and mobile telephone expenses made by the Chairman of the Board in the context and for the purpose of providing the services subject to the law and in accordance with Company procedure

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

On February 17 2010 the Company's General Meeting approved the extension of the tenure of Mr Yair Rabinowitz as outside director at the Company for an additional 3 year term, starting March 1 2010, and to ratify the financial remuneration for the outside director, as detailed in the Company's January 6 2010 immediate report

On March 9 2011 Professor Israel (Izzy) Borowich announced his resignation from the Board of Directors, in light of the Securities Authority (hereinafter "the Authority") report (see e below)

e The Departing Company CEO:

On September 6 2009, the Company announced that it and its CEO, Mr Chaim Romano, had reached an agreement according to which Romano's tenure shall end based on 18 months advance notice from the Company in accordance with the personal employment agreement between the Company and the CEO Until September 30 the date on which this period ended and the balance of the payments was made
The Company's Audit Committee and Board of Directors decided that the non-compete period, which according to the terms of the agreement is 6 months from the completion of work, shall be extended by an additional 12 months, in return for a one-time payment of 750 thousand NIS
In accordance with the terms of the agreement, Mr Romano was entitled to a retirement bonus equal to one month pay for each year of work at the Company (some five years), in addition to releasing retirement and executive insurance sums at his disposal, as well as the payment of a result-dependent bonus, as established in the employment contract, for the 6 month period from the early notice period
Additional costs resulting from the conclusion of the employment of the CEO (in addition to the sum of 750 thousand NIS for the non-compete grant, as described above) were listed in 2009 to the amount of 3 4 million NIS, which as decided by the Board of Directors was calculated on the basis of January-June 2010 In accordance with the Company's financial results for this period, the bonus in question amounted to $647 thousand, which was paid in Q3 2010
In addition, the Audit Committee and the Board of Directors decided that the CEO shall be entitled to flight ticket rights, as is general Company practice for a departing executive of the CEO's rank

On March 10 2011, the Authority provided the Company with an audit report (hereinafter "the Report") regarding the terms of the employment of senior Company executives, including the Company's outgoing CEO In light of the findings of the report regarding the terms of the employment of the outgoing CEO, after an in-depth discussion and re-examination of the approval processes of the outgoing CEO's employment contract, it was decided that the Company's authorized institutions re-discuss and ratify the comprehensive bonus sums received by the Company's outgoing CEO for his term in office (March 2005 to December 2009) and its conclusion (hereinafter "the Bonus Sums") In its March 9 2011 meeting, after receiving the approval of the Audit Committee meeting March 9, and after studying a draft of the Report dated March 3 2011, the Company Board of Directors discussed the feasibility of the bonus in question in light of the comprehensive remuneration package paid the outgoing CEO for his term in office and its conclusion On the basis of all of the above, the Company's Audit Committee and Board of Directors decided to ratify the bonus sums paid in practice to the outgoing CEO for his term in office and its conclusion, after a reduction of 4 million NIS ("hereinafter "the Reduced Sum") In their decision, the Audit Committee and the Board of Directors stated that taking into account the total sum of the remuneration package paid the outgoing CEO for his term in office and its conclusions, and taking into account the arguments stated above, the bonus sums after the reduction are worthy, reasonable and fair

f. Agreement with the Company CEO:

On October 21 2009, the Company's Board of Directors decided to appoint Mr Elyezer Shkedi as the Company's new CEO Mr Shekedi began his term in office January 1, 2010

On January 6 2010 the Company's Audit Committee and Board of Directors approved the terms of Mr Elyezer Shkedi's employment as the Company's CEO (hereinafter "the CEO"), the key points of which are as follows the CEO shall enter office starting January 1 2010, and shall be subject to the Company's Board of Directors The CEO's monthly salary shall gross 115thousand NIS, linked to the Consumer Price Index on the basis of the known CPI, with the base index being the CPI published December 15 2009

The CEO shall be entitled to a bonus of a sum composed of the following three components

"Profit bonus" - a sum equal 2 0% of the Company's yearly pre-tax profit appearing in the Company's consolidated and audited yearly Financial Statements "(the Yearly Statements") for each calendar year during the CEO's tenure as Company CEO ("the Tenure"), starting 2010, when such a profit was achieved and for any portion of such a calendar year, as well as -

"One-time bonus" - a one-time bonus to the amount of two million NIS for the first calendar year over the course of his tenure, in which the Company achieved a pre-tax yearly profit, in accordance with the Yearly Statements for the year in question ("the Base Year") and (b) an additional (and final) one-time sum of one million NIS for an additional calendar year over the course of the Tenure, in which the Company achieved a pre-tax yearly profit, this in accordance with the Yearly Statements for the year in question, as well as -

"A result improvement bonus" - a sum of 2 0% of the aggregate improvement to the Company's yearly pre-tax profit, starting from the base year until the end of the tenure, according to the yearly statements This bonus shall be paid the CEO for the base year and for each subsequent calendar year in which an improvement occurred (if any) in the yearly profit in question compared to the previous peak year in the tenure, with "previous peak year" in this regard being a previous calendar year, starting from the base year, in which the Company's highest pre-tax profit was achieved to date for which the bonus in question is paid Eligibility for this bonus shall apply only if (a) a pre-tax yearly profit was achieved for the calendar years during the tenure in accordance with the relevant yearly reports, as well as - (b) under the condition that the profit in question is larger than the pre-tax profit achieved in the previous peak year, and - (c) due to the difference (delta) only between the two profit sums in question (with the exception of for the base year in which the bonus in question is calculated for the entire pre-tax yearly profit for that year)

In addition, the Company granted the CEO 9,914,382 options exercisable as 9,914,382 ordinary 1 NIS NV Company shares each (for details regarding the options, see Note 30 g 7)

The CEO shall be entitled to social benefits such as executive insurance provisions or pension funds, loss of work ability and education fund, as are commonly granted Company senior executives In addition, the CEO shall be entitled to 30 paid sick days per year (which may be accumulated to up to 120 days, but not redeemed), 16 recovery days per year, as well as 25 vacation days per year (which may be accumulated, unlimited in amount and redeemable) In addition, the CEO shall be entitled to reasonable personal and hospitality expenses, spent as part of his duties and in return for appropriate receipts/ invoices

Upon the discontinuation of the CEO's employment, for any reason, with the exception of criminal circumstances, the CEO shall be entitled to, in addition to the payments specified above, a retirement bonus to the amount of a single monthly salary multiplied by the amount of years he worked at the company (not including the advance notice period), including for a portion of a work year, this according to the CEO's last pay slip

This agreement includes confidentiality and non-compete clauses, according to generally accepted practice, for a 12-month period from the actual discontinuation of work

The Company shall provide the CEO with a mobile phone, a telephone line and home fax machine and shall bear full maintenance and usage costs as well as payments for calls

The Company shall provide the CEO and his household with a Licensing Group 6 vehicle The Company shall bear all costs involved in the use and maintenance of the vehicle, according to Company practice and its procedures as updated from time to time

The Company shall pay the tax payments borne by the CEO for the vehicle and telephone at his disposal

The CEO shall be entitled to flight tickets for himself and for his family according to Company practice regarding anyone serving as CEO, this according to existing Company procedures, updated from time to time

As part of the negotiations with the CEO regarding the terms of his employment at the Company and at the CEO's request, the Board of Directors approved the establishment of a CEO fund for the remuneration of excelling employees, to the amount of 2 million NIS This fund shall be established after the Company's financial results show an improvement of over 50% over 2009 Use of this fund shall be at the discretion of the CEO to provide incentives to excelling Company employees who are not Management members

Based on its 2010 financial results, the Company listed a 2 million NIS expense in its books for the fund

On March 22 2011 the Company CEO informed the Company Board of Directors, at his own initiative, that he had decided to transfer to the Excellence and People fund, to be established in 2011, a sum equal to 50% of the yearly bonus owed him for 2010, in accordance with the term of his employment, meaning a total of 5 7 million NIS (gross) This sum will be added to a sum of 2 million NIS, which will be deposited in the above fund

The sums in this fund are intended for the development, encouragement and promotion of excellence in the Company and personal excellence, as pertains to all of the Company's employees in Israel and around the world who are not members of its management

g. **Directors' and Executives' Insurance and Indemnification:**

Group directors and executives are insured by director and officers' liability insurance in the framework of the insurance coverage prepared by K'nafaim, in accordance with an agreement with K'nafaim

The General Meeting of Company shareholders, held on May 10 2005, ratified the following decisions

a The advance commitment to indemnify executives (no exemption to executives was approved) According to this decision, the extant of the indemnification shall be 25% of the Company's shareholders' equity according to its December 31, 2004 Financial Statements or 25% of its shareholders' equity reported in the last yearly consolidated financial statements prior to the actual payment of the indemnification, whichever is lower

b Framework agreements for ongoing executive insurance and for run-off executive insurance 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 a year In October 2006 the executive insurance prepared by K'nafaim was renewed for an additional 18 month period

On December 9 2009 the insurance was renewed for a period of 18 months, to March 31 2011

In accordance with the terms of the framework agreement, the policy is limited to $100 million as well as an added 20% from the above limit for legal defense expenses in Israel

The Company's share of the insurance fees is a sum of $108thousand a year (relative to an 18 month period - $163thousand), which constitutes 65% of the insurance fees for the group policy The deductible is between $15 and $75 thousand (according to the type and nature of the suit)

The Audit Committee and Company Board of Directors approved the commitment in accordance with Regulation 1(3) of the Companies Regulations (Relief in Transactions with Interested Parties), 2000 and determined that the commitment matches the terms set for the framework transaction, approved by the Company's shareholder meeting dated May 10 2005

The Company is currently acting to renew its insurance

h. Aviation insurance agreements.

From time to time the Company enters into aviation insurance agreements with insurance companies which include, among other things, "aircraft body all risks" insurance and "liability" insurance ("the Company's Insurance Policy")
In July 2006 the Company entered into a three-year agreement with the controlling shareholder, K'nafaim, according to which the Company and K'nafaim will jointly approach the Company's insurers with a request to add aviation insurance coverage for K'nafaim within the framework of the Company's insurance policy ("the Original Agreement")
On November 24 2009 and on November 26 2009 the Company's Audit Committee and Board of Directors (respectively) ratified the extension of the original agreement for an additional five years, in which the Company will continue to include insurance coverage for K'nafaim as part of the Company's insurance policy under terms similar to those in the original agreement, as detailed below
The insurance K'nafaim wishes to include as part of the Company's insurance policies is "contingency" insurance for aircraft owned by the K'nafaim group leased to various airlines This contingent insurance shall only be activated if the aircraft lessees renege on their commitment to purchase insurance for all risks and liabilities or in the event that the lessees' insurers abstain from paying or claim that they have no obligation to pay as well as coverage for ground risks for aircraft of the K'nafaim group This coverage shall be integrated into the "aircraft body all risks and liabilities" policy prepared from time to time by the Company
In return for the above insurance coverage, K'nafaim shall continue to pay the full premiums required for the added insurance, subject to changes that may apply to insurance fees from time to time in accordance with the extant of the insurance's coverage In addition, K'nafaim shall continue to pay the Company a sum of 15% from the added premium in question as administrative fees, according to general practice in the insurance industry, and shall bear the added insurance fees in the event of a security incident pertaining to the K'nafaim added insurance
Approval for the transaction was given for a period of up to five years, with the Company reserving the right to revoke the agreement in the event of certain incidents as established in the agreement In addition, each party shall reserve the right to conclude the agreement for any reason and at its sole discretion, after providing the other party at least 60 days notice
The Audit Committee and the Company's Board of Directors have approved the agreement in question and have determined that there is no material difference between its terms regarding the Company and those regarding K'nafaim, taking into account their relative portions of the shared transaction Therefore, and in accordance with Regulation 1(4) of the Companies Regulations (Relief in Transactions with Interested Parties), 2000, the Company's entry into the agreement does not required the ratification of the General Meeting with a special majority as per Section 275(a)(3) of the Companies Law, 1999
The K'nafaim added insurance is of an non-material extant in comparison to the extant of the aviation insurance of the Company to which it will be attached and the insurance coverage does not harm the Company The added premium for the K'nafaim aviation insurance, paid be K'nafaim, was priced separately by the insurers and matches the relative value of this added insurance compared to the total value of the insurance to which it is attached Nothing in the added insurance from K'nafaim shall cause the Company to pay higher premiums not covered in full by K'nafaim In addition, K'nafaim shall continue to make additional payments to the amount of 15% of the insurance fees for the inclusion of the insurance in question, as set in the past in accordance with the recommendation of an agreed-upon outside insurance consultant, as payment acceptable in the aviation industry as administrative fees In light of the above, the terms of the policy as regards the Company are not materially different from its terms regarding the controlling shareholder taking their relative portion into account

i. Fees of Executives who are Not Directors or CEO:

A Special Meeting of Company Shareholders, 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 executives (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, shall be approved by the Human Resources and Appointments Committee of the Board of Directors

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

1 To approve the Company's entry into a service agreement with the Chairman of the Company's Board of Directors – Mr Amikam Cohen, as per Note 38d above
2 To ratify the appointment of Mr Pinchas Ginsburg as Director on the Company's Board of Directors for tenure to conclude with the Company's next annual General Meeting
3 To ratify Amendment 110 to the Company's Articles, regarding the increase of the maximum number of directors in the Company's Board of Directors
4 To ratify the appointment of Mr Shlomo Hannael as member of the Company's Board of Directors for a tenure to conclude at the Company's next annual General Meeting

On January 19 2011 the Company's General Meeting ratified the continuation of the tenures of the directors serving on the Company's Board of Directors (who are not external directors) as follows Amikam Cohen, Tamar Moses Borowich, Yehuda (Yudi) Levi, Professor Israel (Izzy) Borowich, Amnon Lipkin-Shahak, Amiaz Sagis, Nadav Palti, Eran Ilan, Pinchas Ginsburg and Shlomo Hannael as well as the appointment of Ms Sophia Kimmerling as member of the Company's Board of Directors, until the conclusion of next annual General Meeting

k. Negligible Transaction

On November 26 2009, the Company Board of Directors decided to adopt rules and guidelines for the classification of a transaction made by the Company or one of its affiliates with an interested party (hereinafter "an Interested Party Transaction") as a negligible transaction as defined in Regulation 64(3)(d)(a) of the Securities Regulations (Preparation of Yearly Financial Statements), 1993 or as defined in Regulation 41(a)(6)(a) of the Securities Regulations (Yearly Financial Statements), 2010 which replaced the regulations in question starting January 6 2010
These rules and guidelines are also used to determine the extant of disclosure in the periodic report and in the prospectus (including in shelf proposal reports) as regards transactions with controlling shareholders or in which controlling shareholders have personal interest as defined in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter "the Reporting Regulations), and Regulation 54 of the Securities Regulations (Prospectus Details and Prospectus Draft – Structure and Form) as well as to determine the need to submit an immediate report for such a transaction, as set in Regulation 37(a)(6) of the Reporting Regulations
The Company's Board of Directors has determined that in the absence of special qualitative considerations deriving from the circumstances of the issue, an Interested Party Transaction shall be considered a "negligible transaction" if
(a) The transaction takes place over the Company's normal course of business and (b) the transaction is under market conditions and its terms are acceptable to the relevant market, and (c) the relevant criteria for the transaction, one or more, whether it is a single commitment or a series of commitments on the same issue over the course of the same year, is no greater than 200 thousand NIS in any interested party transaction the classification of which has been considered as a "negligible transaction" on the basis of the Company's latest audited consolidated yearly financial statements Relevant criteria for the determination of a transaction are, for instance (1) total sales the subject of the Interested Party Transaction, or - (2) the total cost of the sales the subject of the Interested Party Transaction, or – (3) the extant of assets the subject of the Interested Party Transaction, or – (4) the extant of liabilities the subject of the Interested Party Transaction, or – (5) the extant of the expense or yield the subject of the Interested Party Transaction
In this regard – in the event the Company does not have full rights to a certain transaction, the transaction shall be determined based on the Company's relative portion of the transaction
In cases in which, according to the Company's judgment, all of the aforementioned criteria are irrelevant for the determination of the negligibility of the Interested Party Transaction, the transaction shall be considered negligible, in accordance with a different relevant criterion, determined by the Company, so long as the relevant criterion used for this transaction shall not exceed 200 thousand NIS
At the same time, examination of the quantitative considerations of an interested party transaction may lead to the contradiction of the aforementioned fixed presumption of the transaction's negligibility Thus, for instance, and merely as an example, an Interested Party Transaction shall not generally be considered negligible if it is considered a significant event by Company Management and if it serves as the basis for

administrative decisions, or if interested parties are expected to receive benefits that need to be reported to the public pursuant to the transaction

The transaction's negligibility shall be determined on a yearly basis for the purpose of reporting within the framework of the periodic report, the financial statements and the prospectus (including a shelf proposal report), while adding together all of the Company's transactions of the sort with the interested party in question or with corporations under the control of the interested party To be clear – separate transactions carried out on a regular and repeating basis during a certain period with no mutual dependence or for which no additional obligations exist which are not relevant to entering into the transaction as regards the same interested party, shall be examined on a yearly basis for the purpose of reporting pursuant to the periodic report , the financial statements and the prospectus (including a shelf proposal report), and on the basis of the specific transaction for the purpose of immediate reporting

Over its regular course of business, the Company carried out, during the reported year or as of the date the report was filed or still in effect as of the report date, transactions with controlling shareholders defined as "negligible transactions" of the following types and with the following characteristics catering services for passengers whose flight has been delayed, entering into an agreement to direct search engines to the Company's website, purchasing books for frequent flyer club members, security screening services for VIP travelers in the Massed Lounge, as well as undercover inspections on Company flights and during security screening for Company flights

l. Agreement with QAS

On November 22 2010 the Company signed an agreement with QAS Israel Ltd ("the Agreement" and "QAS", respectively), 50% of the shares of which are held by the Company's controlling shareholders, K'nafaim According to the Agreement, the Company shall provide QAS with ground services at Ben Gurion Airport in return for a payment reflecting the market price for similar services, at non-material amounts QAS deals in the supply of ground services to foreign airlines at Ben Gurion Airport and is interested in the Company carrying out some of the services QAS provides the airlines, such as towing aircraft, providing electrical power to aircraft and providing aircraft accessories The agreement is for an unlimited term and each party may terminate it with 60 days notice This agreement was approved by the Company Board of Directors as a non-exceptional transaction The key points of the Board of Directors' argument for approving the agreement were the increase in the volume of activity in the field of maintenance, and increased market share and improved profitability for the Company

m. Additional Commitments

Commitments for the receipt of additional services, over the normal course of business, under generally accepted conditions and market prices, via the Company's advertising agency, from the Yediot Acharonot Group and from a billboard advertising sales enterprise In addition, a commitment for the purchase of newspapers and magazines belonging to the Yediot Acharonot Group

Yediot Acharonot Ltd is a company under the control of Arnon (Noni) Moses, brother of Ms Tamar Borowich, Deputy Chairperson of the Company's Board of Directors and controlling shareholder at K'nafaim

The billboard advertising sale enterprise (hereinafter "the Enterprise") is operated by CTV Media Israel Ltd (hereinafter "the Advertising Company"), Communicative Ltd (the Advertising Company's controlling shareholder) and C Vision Billboards Ltd The Advertising Company and/or Communicative Ltd are entitled to 60% of the Enteprise's revenues Mr Tamar holds indirectly, linked via other companies, 26 2% of the issued capital of the Advertising Company (in practice her theoretical share of the Enterprise is 15 7%), Mr Nadav Palti, who serves as a Company director, holds indirectly, linked via other companies, 9 2% of the issued capital of the Advertising Company (in practice his theoretical share of the Enterprise is 5 5%), Professor Israel Borowich (the controlling shareholder of K'nafaim) holds shares constituting 0 29% of Communicative Ltd 's issued capital Mr Tamar Borowich and Mr Nadav Palti serve on the board of the Advertising Company

On March 22 2011 the Company's Board of Directors approved a yearly framework for the commitment detailed above, ratified for prudence's sake the commitments made in 2008, 2009 and 2010 and set mechanisms to supervise the upholding of the commitment's framework conditions and their execution under market conditions and prices The commitments were classified by the Company as non-exceptional transactions

On January 21 2009 the Company's Board of Directors approved a commitment with the law firm of Goldfarb, Levi, Eran, Meiri, Tzafrir & Co for the treatment of various legal issues The commitment was brought to the approval of the Board of Directors as a non-exceptional transaction as the Company's controlling shareholder, the Deputy Chairman of the Board Yehuda (Yudi) Levi, esq , has a personal interest, as he is a managing partner of the law firm in question The Company's Board of Directors discussed the matter and approved that as the Company has regular contingency agreements with a number of law firms for the receipt of legal services in a variety of fields, this constitutes a commitment over the normal course of the Company's business that does no harm to the Company Furthermore, hourly fees are as accepted in the Company's commitments with law firms handling various issues and therefore the commitment is under market conditions

n. Transactions between the Company and Board member Pinchas Ginsburg (hereinafter: "Ginsburg") or persons operating on his behalf (including corporations under his control):

Pinchas Ginsburg (serving on the Company's Board of Directors) and I Hillel & Co Ltd ("I Hillel"), in his full possession, received the approval of the Holder of the Special State Share on September 3 2006 according to which the Holder agrees that individuals members of Pinchas Ginsburg's family and I Hillel may hold the Company's shares together at a rate lower than 15% of the Company's issued stock value
Note that Pinchas Ginsburg has a personal interest, directly or indirectly, in various transactions carried out by the Company and/or related companies, as detailed below (a) I Hillel carries out, from time to time, transactions with the Company and with Sun D'Or for the purchase of flight tickets for Company and Sun D'Or flights as well as Sun D'Or charter flights, (b) Sun D'Or enters, from time to time, into transactions with Air Tour, half of the shares of which are held by the Company and the other half are held, to the best of the Company's knowledge, by travel agents, including I Hillel Mr Ginsburg also serves on the Board of Directors of Air Tour These transactions are essentially the purchase of flight tickets, providing outsourcing services by Air Tour in ticketing areas, making reservations and providing ground services, (c) Pinchas Ginsburg acts as the general sales agent for Thai Airways ("Thai") in Israel Ginsburg's compensation is based on commissions deriving from the sale of Thai flight tickets in Israel Agreements are in place between the Company and Thai regarding the transport of passengers and the transport of cargo, including code sharing and interline agreements
In light of Mr Ginsburg's personal interest in all of the transactions in question, the Company's Board of Directors approved, as non-exceptional transactions, the transaction procedure pertaining to commitments between the Company and Thai as well as the transaction procedure between Sun D'Or and Air Tour as well as framework agreements between I Hillel and/or Mr Ginsburg (in this section – "the Interested Party") and the Company and Sun D'Or (all of the transactions in question shall hereby be referred to as "the Commitments") The basic principles of the transaction procedures and framework agreements are as follows (1) once per year the Company's Board of Directors shall set the maximum yearly proceeds for transactions with the interested party (hereinafter – "the Maximum Sum"), (2) all commitments pursuant to the maximum sum shall be at market prices and under market conditions, commitments not under market conditions shall require the advance approval of the Audit Committee and Company Board of Directors, (3) a supervising element shall be appointed to ensure that all of the commitments are carried out under market conditions and who shall provide the Company's Audit Committee, on a biannual basis, with a written report regarding commitments carried out in the previous half and their conditions, (4) insomuch as the Audit Committee determines that a deviation had occurred from market prices and conditions in any of the commitments ("Deviating Commitments"), the discussion of these Deviating Commitments shall be passed on to the Company's Board of Directors for its approval regarding its decision on the steps required for their approval Note that as of this report, no deviating transactions have been found, (5) extending the commitments shall be subject to the approval of the Company's authorized organs

o. Remuneration of Key Management Personnel

	For the Year Ending December 31		
	2010	2009	2008
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
Short-term benefits	8,252	4,516	4,822
Post-employment benefits	1,266	1,460	1,456
Share-based payment	745	515	837
	10,263	6,491	7,115

p. Benefits Granted Interested Parties

	2010	2009	2008
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
Salaries and ancillary expenses to interested parties employed in the Company	-	15	16
Number of individuals to whom the benefit relates	-	1	1
Chairman services and commissions fees (including bonuses due to options)to interested parties employed by the Company	411	464	376
Number of individuals to whom the benefit relates	1	1	1
Remuneration of directors not employed by the Company	404	333	87
Number of individuals to whom the benefit relates	11	13	10

q. Balances with Interested and Related Parties

	As of December 31	
	2010	2009
	Thousands of Dollars	Thousands of Dollars
<u>Other interested parties /related parties</u>		
Within the framework of current assets -		
<u>Trade receivables</u>		
Related party – affiliated company (in dollars)	3,522	2,417
Related party and interested party (in dollars)	564	71
	4,086	2,488
Total highest debit balance during the balance year	10,758	5,264
In the framework of current liabilities -		
<u>Trade Payables</u>		
Related party – affiliated company (in dollars)	-	7
Related party and interested party (in NIS)	366	49
	366	56

	As of December 31	
	2010	2009
	Thousands of Dollars	Thousands of Dollars
Current Liabilities due to Employee Benefits		
Related party	3,213	1,379
Subsidiaries		
In the framework of non-current financial assets -		
Investment in shares	-	57
	-	57

r. Transactions with Interested and Related Parties

	2010	2009	2008
	Thousands of Dollars	Thousands of Dollars	Thousands of Dollars
Interested Parties/Related Parties			
Revenues from interested and related parties			
Flight tickets	35,972	34,040	22,801
Cargo transport	20,447	16,219	34,014
Maintenance services	93	-	-
Use of software (affiliated company)	-	100	1,696
Financing (from affiliated company)	-	17	52
Operating Expenses -			
Transactions with controlling party	584	76	156
Services from interested party	332	-	-
Sales Expenses -			
Primarily commissions and marketing fees (affiliated company)	3,326	5,574	8,853
Primarily agent commissions (to interested parties)	63	110	136
Advertising services from interested party (via third party)	759	-	-
General and administrative expenses	5,835	2,843	1,980

Note 39 - Material Transactions and Events During the Reported Period

a. Framework Agreement with Cargo Terminals and Handling Ltd ("Maman")

On April 12 2010 the Company announced that it had signed an agreement paper ("the Agreement Paper") with Maman, according to which, subject to the ratification of its General Meeting and the approval of the Stock Exchange, options shall be allocated by Maman to a trustee ("the Trustee Options") exercisable as Maman shares, in lieu of allocation to the Company of first and second portion shares as defined in the framework agreement It was also agreed that subject to the receipt of the approvals in question, the trustee shall be provided with the options Maman undertook to grant the Company in accordance with the framework agreement ("the Options in the Agreement")

The Agreement Paper states that the Trustee Options shall be exercised and converted to first and second

portion shares and that the trustee shall provide the Company with the Options in the Agreement, on the earlier of the following two dates (a) August 31 2010, so long as no decision is reached by the Israel Antitrust Authority according to which the allocation of first and/or second portion shares constitutes a restrictive arrangement or misuse of a monopoly, or (b) the date on which approval is granted by the Israel Antitrust Authority according to which is believes that nothing in Restraint of Trade law precludes the allocation of the shares and options in question or that it does not intend to take any action pertaining to the allocation of shares and options in question, or that it was stopping its investigation into the matter of the framework agreement Prior to the date in question no use shall be made of the Trustee Option and of the Options in the Agreement and no shares shall be allocated as a result
The trustee agreement in question was adopted by the parties after the Israel Antitrust Authority informed Maman and the Company that the arrangements included in the framework agreement on the matter of the allocation of shares and discounts could apparently constitute a restrictive arrangement and misuse of a monopoly, in accordance with the Restrictive Trade Practices Act, 1988, and in light of this proposed that the parties avoid acting in accordance with the Framework Agreement The trustee mechanism in question was adopted in order to provide the Israel Antitrust Authority with additional time for the purpose of examining the framework agreement and formulating its conclusions in our matter

On April 14 2010 the Company received notice from the Israel Antitrust Authority that establishing a trustee, transferring options to the trustee and establishing a date for their exercise in accordance with the Agreement Paper are not compatible with the position of the Israel Antitrust Authority and that such an action may constitute a violation of the Restrictive Trade Practices Act, 1988 by the parties, their executives and the trustee appointed in accordance with the Agreement Papers and exposes them to means of enforcement resulting from the law in question Following a request by the Restraint of Business Authority as described above, no allocations of securities as per the framework agreement were made at the time

On September 13 2010 the Company received a letter from the Restraint of Trade Authority, according to which the Authority confirmed that the wording of the clause (as detailed above) included in the draft addition to the framework agreement provided by the Company and Maman to the Restraint of Business Authority, is acceptable, and that after the parties sign the addition to the framework agreement including the clause in question, the Restraint of Business Authority will have no objections to the implementation of the framework agreement
The clause of the addition draft to which the Restraint of Business Authority refers in its letter sets various restrictions, as required by the Authority, on the Company's involvement in the affairs of a specific Maman subsidiary (Laufer Aviation GHI Ltd) and on the transfer of certain information pertaining to the subsidiary in question to the Company

On September 19 2010 the Company and Maman signed an addition to the framework agreement, the signing of which constituted a term for the removal of the Restraint of Business's objections to the implementation of the framework agreement

On November 3 2010 Maman's special general meeting approved a material private offer, pursuant to which Maman's securities would be allocated to the Company in the following manner up to 7,000,000 regular 1 NIS NV each shares constituting up to 15% of Maman's issued and paid-up capital, as well as options exercisable as regular shares at a rate close to 10% of Maman's issued and paid-up capital Following this, as of December 31 2010 the Company was issued 2,837,837 ordinary Maman shares, constituting 7 5% of Maman's issued and paid-up capital, as well as the aforementioned options
Furthermore, the general meeting approved the appointment of Mr Amikam Cohen, Chairman of the Company's Board of Directors, as member of Maman's board of directors, starting November 7 2010 and the appointment of Mr Yehuda (Yudi) Levi, Deputy Chairman of the Company's Board of Directors, as member of Maman's Board of Directors, starting January 1 2011

On November 1, 2010, the Company informed Maman of the extension of the option to extend the commitment period according to the framework agreement, this up to December 31 2011
As a result of the completion of the transaction, in 2010 the Company listed in its books receipts to the amount of $4 2 million for discounts received pursuant to the Maman transaction, and an additional $6 2 million for the allocation of 7 5% of Maman's shares to the Company for no return These sums reduced the Airport Fees and Services item under operating expenses in the Company's Statement of Operations
Changes in the fair value of the shares are charged to the gain/loss up to the date on which the Company

will have a material impact on Maman (as a result, in Q4 2010 financing expenses were charged to the amount of $0 2 million)
The fair value of the options exercisable as ordinary shares close to 10% of Maman's issued and paid-up capital was estimated using the Black & Scholes Model The value of the options, based on the following parameters, as of the allocation date of November 7 2010, amounted to 17 5 million NIS ($4 8 million on that date) This sum reduced the Airport Fees and Services item under operating expenses in the Company's Statement of Operations

The parameters used in the application of the model, as of November 7 2010, are as follows:

Share price (in NIS)	0 801
Exercise price (in NIS)	0 624
Expected fluctuation (*)	39%
Lifespan of options (in years)	6
Risk-free interest rate	3 4%
Expected dividend rate	0%

(*) The expected fluctuation is determined based on historic fluctuations in the price Maman's share during a three-year period

The options are treated as a derivative, with the changes in fair value charged to the gain/loss (as a result, in Q4 2010 financing expenses were charged to the amount of $0 6 million)
In both 2011 and 2012 the Company is expected to receive an additional 3 75% of Maman's shares, subject to the realization of the terms of the agreement
In January 2011 the Company was allocated an additional 1,598,783 shares, constituting 3 75% of Maman's issued and paid-up share capital, so that the Company's total holdings after this allocation amount to 11 25% of Maman's issued and paid-up share capital

b. The Minister of Transportation's decision to approve scheduled flights to Eilat:

Regarding the Company's appointment as designated carrier to Eilat, on February 4 2010 the Minister of Transportation accepted the recommendations of the CAA and issued his authorization to the Company to operate scheduled flights between BGN and Eilat
According to the Minister's decision, the Company may operate three daily flights in either direction between BGN and Eilat on five out of seven days a week, offering no more than 430 seats per day in each direction In addition, the Company shall be required to operate at least one daily flight in each direction, five days a week, and offer 100 seats in each direction at least on all flights and separate between the frequent flyer programs operated by the Company on international lines and domestic services
Concurrently with the decision allowing the Company to fly to Eilat, the Minister of Transportation decided to release Israir from its flight schedule and seat obligations and allow it to set its flight schedule between Sdeh Dov and Eilat and between BGN and Eilat according to its own priorities
The Minister of Transportation's decision was set for a six month period starting from the beginning of flights by the Company
At the end of the period the Company's entry into the route shall be examined and requisite changes, if any, will be decided upon accordingly As noted above, the beginning of flights will be postponed by 30 days from the date of the Minister's approval in order to allow Arkia and Israir to approach the court with a repeat petition to revoke the approval granted El Al regarding the flights on the Eilat route

On March 8 2010 Arkia filed a petition before the High Court of Justice against the Minister of Transportation and Road Safety, the Civil Aviation Authority and the Company (hereinafter "the Respondents") and on March 9 2010 Israir filed a similar petition before the court In these petitions the court was asked to issue a temporary order instructing the Respondents to explain why exactly the Minister of Transportation's Authorization on February 4 2010 to allow the Company to operate direct flights between Ben Gurion Airport and Eilat should not be revoked In addition, the court was asked to issue an interim order (or alternately an injunction until a hearing is held on the petition) instructing the Respondents to avoid realizing the decision until the petition is resolved

The Supreme Court did not issue an interim order in response to the petitions filed by Arkia and Israir and the court consolidated the petitions

On March 10 the Company filed a petition to the High Court of Justice against the decision by the Minister of Transportation on the matter of the license granted the Company to operate the Eilat route ("the Decision"), pursuant to which a temporary order was requested instructing the Minister of Transportation and the Head of the Civil Aviation Authority to explain why the Court should not rule that the restrictions placed on the Company in the Decision be cancelled, including the restrictions involving the frequency of flights and amount of seats, minimum flight requirements and the requirement that the Company's international frequent flyer plan be separated from its domestic frequent flyer plan, as well as why the court should not instruct them to clarify why the Company's license needs to be reexamined after a period of six months

On June 27 2010 the High Court of Justice ruled to reject the petitions filed by Arkia and Israir against the ruling, and ruled to reject the petition filed by the Company on the matter of the terms set in the decision, and charged the petitioners for court expenses

In August 2010 the Company began operating 3 daily flights on the BGN-Eilat route, in accordance with the conditions set in the resolution of the Minister of Transportation and Road Safety In August-December 2010, the Company flew 96,000 passenger legs and its share of domestic traffic to Eilat was in this period was 16%

c. The Eruption of the Volcano in Iceland

Following the eruption of the volcano in Iceland and the diffusion of volcanic dust through European skies, starting April 15 2010 most European airports gradually closed to air traffic, this in accordance with European aviation authority directives European airspace was completely closed for 6 days with thousands of flights cancelled a day In addition, restrictions were placed on takeoffs, landings and aviation traffic in and around Europe These events caused financial damage to the global economy and to the aviation industry in particular The events in question also had an impact on the Company's European activities and led to the cancellation of dozens of flights to various European destinations The Company continued with scheduled activity to its destinations in America, Asia and South Africa and reinforced its flights to European airports open for traffic
In light of the short duration of the event, it had no material impact on the Company's operating results

d. Aircraft Leases

1 On March 28 2010 the Company signed an agreement for the lease of a Boeing 747-400 aircraft (ELF), manufactured in 1994 ("the Agreement" and "the Plane", respectively), with an Irish aircraft leasing company According to the agreement, the leasing period is from the date of the aircraft's receipt until June 30 2012 with the option (held by the Company) to extend the lease for an additional 36 month period Note that during the period between April 2010 and the end of June 2010, the leasing fees were paid relative to the Plane's operation, in accordance with the commercial understandings achieved between the parties In addition, pursuant to the agreement, the Company was granted the right of first refusal and options to purchase the aircraft, in accordance with the agreements between the parties The Plane was received on April 24 2010 In accordance with the terms set in the agreement, the lease was classified as an operational lease

2 In May 2010 the Company signed a contract with the International Lease Finance Corporation to lease a 767-300ER aircraft (EAK) for a lease period of 65 months The plane, manufactured in 1997, was received by the Company on June 21 2010 and began service on July 11 2010 The lease was classified as an operational lease in the Financial Statements

3 In July 2010 the Company decided to exercise its option to extend the lease of a K M A S Aviation 757-200 aircraft (EBM), starting December 2010, for an additional 12-month lease The lease was classified as an operational lease in the Financial Statements

4 In August 2010 the Company signed an extension and a revision to the lease for the 737-800 aircraft (EKP), manufactured in 2001, from the International Lease Finance Corporation ("ILFC"), with whom a memorandum of understanding regarding the aircraft in question was signed in May 2010 The aircraft shall be leased for an additional 45 months The lease was classified as an

operational lease in the Financial Statements

5 In October 2010 the Company signed an agreement to lease a 737-800 aircraft (EKT) from Wilmington Trust Sp Services (Dublin) Limited, which holds the plane in trust for CIT Aviation Finance Limited, with whom a memorandum of understanding was signed in July 2010 regarding the aircraft in question The agreement includes the aircraft's lease for an additional 68 months, with an option to extend the lease by an additional 24 months The aircraft, manufactured in 2006 shall be reconfigured to El Al configuration upon receipt The agreement was revised and the lease period extended due to the fact that the delivery of the aircraft was pushed forward from March 2011 to January 2011 The lease shall be classified as an operational lease in the Financial Statements

6 In October 2010 the Company signed an extension and revision to the agreement to lease a 737-300ER aircraft (EAP), manufactured in 1991, from CIT Aerospace International for an additional 42 months with the option to shorten the additional lease period to 18 months The lease shall be classified as an operational lease in the Financial Statements

7 In October 2010 the Company signed an extension and a revision to the lease for the 737-800 aircraft (EKO) manufactured in 2003, from RAIN VI LLC with whom a memorandum of understanding regarding the aircraft in question was signed in May 2010 The aircraft shall be leased for an additional 5-year period with an option to shorten the additional lease period to 3 years The lease was classified as an operational lease in the Financial Statements

8 In January 2011 the Company signed an extension and revision to the agreement to lease a 737-300ER aircraft (EAR), manufactured in 1995, from International Lease Finance Corporation for an additional 60 months with the option of shortening the additional leasing period after 36 months The lease was classified as an operational lease in the Financial Statements

9 In February 2011 the Company signed an agreement to lease a 767-300ER aircraft from A I AWMS Delaware Statutory Trust, with whom a memorandum of understanding was signed in November 2010 regarding the aircraft in question The aircraft is leased for a period of 78 months and an early departure option has been granted each of the parties after 54 months The aircraft was manufactured in 2000 and is expected to join the Company's aircraft fleet in late March 2011

e. Changes to Fuel Tanks of Company Aircraft

The U S aviation authorities have required the Company to perform alterations on the fuel tanks of the Company's planes The cost of the change amounts to a total of $9 3 million The change must be carried out on one half of the aircraft by the end of 2014, with the end date for all aircraft set for the end of 2017 Over the course of 2010 the Company ordered 3 kits at a cost of $1 1 million to carry out the change on 3 aircraft The kits are expected to arrive over the course of 2011, and shall be installed in the aircraft after their arrival Over the course of 2011 the Company is expected to order an additional 5 kits, to be carried out in 2012, at a cost of $1 8 million

<u>Note 40</u> - <u>Transactions and Commitments with Investees</u>

1 As stated in Note 1c The Company did not include separate financial information in its 2010 and 2009 Financial Statements in accordance with Regulation 9c of the Regulations, due to the negligibility of the added information

The Company fully owns several companies the activity of which complements the primary activity conducted within the framework of the Company These companies do not act independently, but are in effect specific components of the Company's array of activities consolidated in the form of companies and this from regulation and other administrative reasons (salary agreements etc) These companies are not material relative to the Company as the extant of assets, liabilities and revenues managed as part of the subsidiaries are negligible relative to the extant of the assets, liabilities and revenues managed within the framework of the Company Therefore, publication of separate Financial Statements will not provide additional material information to the reasonable investor

2 The Company has entered into agreements with its subsidiaries as follows

a. Activity between the parent company and its subsidiaries

Company	Type of Activity	Yearly Turnover 2010	Yearly Turnover 2009	Investment Account 2010	Investment Account 2009	Credit/Debit Account as of Dec. 31 2010	Credit/Debit Account as of Dec. 31 2009
		Thousands of Dollars					
Sun D'Or	Leasing of aircraft and associated services	78,573	68,051	3	3	9,631	6,543
	Commissions	878	648				
TAMAM	Purchasing food for Company flights from BGN	21,519	19,608	756	1,617	3,641	4,310
Borenstein	Purchasing food for Company flights from New York	5,990	6,352	4,491	4,367	178	191
	Dividend	20	-				
	Managements fees	184	188				
	Loan to parent company (1)			2,600	2,600		
Superstar	Sale of flight tickets	10,547	8,578	(65)	(32)	104	189
	Loans from parent company (2)			488	332		
Katit	Purchasing food for employees and food services in the King David Lounge in Terminal 3	3,064	2,767	-	-	1,221	946

(1) In December 2008 the Company received a $2,600 thousand loan from Borenstein for a period of three years, at a 2 3% annual interest rate paid December 15 every year In 2010 the Company's interest expenses for this loan amounted to $60 thousand (in 2009, $60 thousand)

(2) In September 2007 the Company provided Superstar with a £205 thousand loan In October 2010 the Company provided an additional with a £110 thousand loan The two loans have no repayment date and bear no interest

b. Mutual activity between subsidiaries

Company	Type of Activity	Yearly Turnover 2010	Yearly Turnover 2009	Credit/Debit Account as of 31.12.2010	Credit/Debit Account as of 31.12.2009
		Thousands of Dollars		Thousands of Dollars	
TAMAM-Katit	Food purchasing	34	58	10	20
Superstar-Sun D'Or	Flight Ticket Purchasing	3,494	2,095	428	788

Note 41 - Liens and Collateral

As stated in Note 16i above, the Company's assets free of liens as of December 31 2010 are aircraft and reserve engines worth $23 million as well as parts and other fixed assets to the amount of $1142 million With the exception of these assets, the assets are restricted in favor of loans granted by the lending banks

The following details the Company's liabilities secured by liens

Type of Plane	Plane Register Code	Year of Manufacture	Lien Details
777-200ER	ECA ECB ECC	2001	Fixed and specific first-tier pledge and lien for an Israeli bank on all of the Company's rights to the planes The pledge and lien include all the engines, the rights deriving from the lease or use of the aircraft or contracts or insurance policies and rights to indemnification or insurance proceeds for the aircraft in question 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 and the assets may not be transferred without the bank's advance written consent

777-200ER	ECD ECE ECF	2002 2007 2007	Fixed and specific first-tier pledge and lien in favor of a trustee for collateral (for ECD) The pledge and lien include all the rights deriving from contracts connected to the plane, rights to indemnification or insurance proceeds for the aircraft or their engines, or any part related to it and all rights deriving from the lease agreement for the aircraft In addition, the Company assigned by way of a pledge in favor of a foreign company, all of the existing and/or future rights arising from insurance policies for the aircraft
747-400	ELA ELB ELC ELD ELE	1994 1994 1995 1999 1994	Fixed and specific first-tier pledge and lien (for ELA and ELB for an overseas banking corporation, for ELC and ELE for an Israeli bank and for ELD for Israeli banks) on all of the Company's rights to the planes The pledge and lien include all the engines, the rights deriving from the lease or use of the aircraft or contracts or insurance policies and rights to indemnification or insurance proceeds for the aircraft in question 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 and the assets may not be transferred without the bank's advance, written consent
757-200ER	EBT EBU EBV	1991 1993 1993	Fixed and specific first-tier pledge and lien for an Israeli bank on all of the Company's rights to the planes The pledge and lien include all the engines, the rights deriving from the lease or use of the aircraft or contracts or insurance policies and rights to indemnification or insurance proceeds for the aircraft in question 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 and the assets may not be transferred without the bank's advance, written consent
767-200ER	EAC EAD EAE EAF	1984 1984 1990 1990	Fixed and specific first-tier pledge and lien for an Israeli bank on all of the Company's rights to the planes The pledge and lien include all the engines, the rights deriving from the lease or use of the aircraft or contracts or insurance policies and rights to indemnification or insurance proceeds for the aircraft in question 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 and the assets may not be transferred without the bank's advance, written consent
737-800 737-700	EKA EKB EKC EKD EKE	1999	Fixed and specific first-tier pledge and lien for an Israeli bank on all of the Company's rights to the planes The pledge and lien include all the engines, the rights deriving from the lease or use of the aircraft or contracts or insurance policies and rights to indemnification or insurance proceeds for the aircraft in question 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 and the assets may not be transferred without the bank's advance, written consent
737-800	EKH EKJ EKL	2009	Fixed and specific first-tier pledge and lien in favor of a trustee for collateral (see Note 22 d 3) on all of the Company's rights to the planes 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 from the lease agreement for the aircraft In addition, the Company assigned by way of a pledge in favor of a foreign company, all of the existing and/or future rights arising from insurance policies for the aircraft

Additional liens:

1 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

2 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 said bank

3 To guarantee a long term loan received from a leasing company for the purchase of an engine for the 777-200 fleet, the Company listed a first-tier loan unlimited in sum on the engine (including insurance, compensation and indemnification rights)

4 A lien in favor of a foreign bank on a spare engine for the 777-200 fleet, purchased with the financing of an overseas bank, for which the foreign bank provided collateral The lien includes rights deriving from insurance, compensation and remuneration

5 Regarding the leased aircraft in the 737-800 fleet (marked EKS and EKF), liens on all of the insurance policies pertaining to the asset for a foreign company No additional lien may be registered on those assets and the assets may not be transferred without the owner's consent

Note 42 - Events Subsequent to the Balance Sheet Date

1 In January 2011 civil uprisings began in several North African countries based on the lack of civil rights, the absence of democracy and poor economic conditions with increasing unemployment As a result of this instability, fuel prices climbed to $91 per barrel in the beginning of January and $101 per barrel immediately prior to the publication of these Financial Statements The meaning of a 1 cent increase in jet fuel prices for an entire year means an added yearly expense of $2 5 million The Company has jet fuel hedging transactions (see Note 31g) Following the increase in jet fuel prices the Company decided to update its fuel surcharge starting April 2011 The fair value of the jet fuel hedging transactions immediately prior to the publication of the report is, according to the Company's estimates, $52 2 million This value includes transactions for the purchase of financial instruments as described in Section 10 below

2 On January 19 2011 the Company's General Meeting ratified the continuation of the tenures of the directors serving on the Company's Board of Directors (who are not external directors) as follows Amikam Cohen, Tamar Moses Borowich, Yehuda (Yudi) Levi, Professor Israel (Izzy) Borowich, Amonon Lipkin-Shahak, Amiaz Sagis, Nadav Palti, Eran Ilan, Pinchas Ginsburg and Shlomo Hannael as well as the appointment of Ms Sophia Kimmerling as member of the Company's Board of Directors, until the conclusion of next annual General Meeting

3 On February 7 2011 an agreement was signed with aircraft manufacturer Boeing ("the Agreement") for the purchase of three new Boeing 737-900 aircraft For further details, see Note 16 e 1 c

4 On February 10 2011 the Company's Board of Directors ratified the signing of a settlement with the Income Tax Authorities For details see Note 28f

5 In February 2011 an agreement was signed with R B Leasing Company Limited for the purchase of a 747-400 passenger aircraft The aircraft, manufactured in 1996, shall be renovated and adapted to the Company's service, so that includes 387 seats and serves the Company for medium and long-range destinations The aircraft joined the Company's aircraft fleet on February 22 2011 The cost of the aircraft is $17 9 million, the investments required for its adaptation to Company service are estimated at $4 million

6 In February 2011 the Company was provided with a copy of a motion to approve the filing of a claim as a derivative claim, as well as a copy of the derivative claim, regarding the approval of the incentive bonus formula for the Company's previous CEO For details see Note 27 c (c) (9)

7 As special collective agreement pertaining to temporary flight attendants and temporary employees in the administrative sector was signed in February 2011 For details see Note 23 c (13)

8 On March 10 2011, the Securities Authority provided the Company with an audit regarding the terms of the employment of senior Company executives, including the Company's outgoing CEO, Mr Chaim Romano On March 14 2011 the Company announced that pursuant to the talks the Company is conducting to restore and/or receive compensation for an excess of 4 million NIS paid the outgoing CEO, the Company negotiated with the outgoing CEO that he would refund the Company a total of 1 million NIS and the Company also negotiated with the insurance company, with which the Company entered into an executive insurance policy, that it would pay the Company a total of $750 thousand U S , on account of the compensation required from directors and executives or either to reduce or clear the derivative claim Note

that Professor Israel Borowich resigned from the Company's Board of Directors on March 9 2011, for further details see Note 38d

9 On March 20 2011 the Civil Aviation Authority (CAA) informed subsidiary Sun D'Or International Airlines (Sun D'OR) that it would be revoking Sun D'Or's operational license starting April 1 2011 This announcement by the CAA followed talks between the CAA and Sun D'Or and the CAA's requirements regarding Sun D'Or's licensing and its operational performance and following a proceeding held before the European Commission on March 16 2011, to which CAA and Sun D'OR representatives were invited in order to provide explanations regarding the structure of Sun D'Or and its operations, in order for the European Commission to decide whether to place operational restrictions on Sun D'Or's flights to Europe The Company has no financial estimate regarding the announcement at this stage The Company is acting along with the CAA in order to formulate an alternative response to Sun D'Or's flight array, while examining the implications of the license revocation in question

10 In March 2011 the Company conducted sales and purchase transactions of certain financial instruments pursuant to its jet fuel hedging portfolio for the period between September 2011 and March 2012, mainly consisting of replacing some of the financial instruments used to hedge jet fuel in the period in question with other financial instruments, while making an early realization of hedging revenues to the amount of $31 million and purchasing other financial instruments worth $6 million in such a manner that the total result of the actions in question derived a cash bonus of $25 million that entered the Company's accounts Hedging revenues to the amount of $31 million shall be recognized in the Company's Statements of Operations based on the original repayment dates of the transaction for the period in question of which $22 million shall be recognized in the second half of 2011 and the balance to the amount of $9 million shall be recognized in the first quarter of 2012
The sales transactions have no impact past that described above on the Company's jet fuel hedging for other periods

11 On March 22 2011 the Company CEO informed the Company Board of Directors, at his own initiative, that he had decided to transfer to the Excellence and People fund, to be established in 2011, a sum equal to 50% of the yearly bonus owed him for 2010, in accordance with the term of his employment, meaning a total of 5 7 million NIS (gross) For details see Note 38f

In accordance with Regulation 32 of the Overseas Companies Regulations 2009

OS AA01

Statement of details of parent law and other information for an overseas company

Companies House

✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law

✗ **What this form is NOT for**
You cannot use this form to regi an alteration of manner of comp with accounting requirements

COMPANIES HOUSE

Part 1 Corporate company name

→ **Filling in this form**
Please complete in typescript or in bold black capitals

All fields are mandatory unless specified or indicated by *

Corporate name of overseas company ❶: EL AL ISRAEL AIRLINES LIMITED

If the company has already been registered in the UK, please enter the establishment number below

UK establishment number ❷: ~~BR~~ FC004087

❶ This is the name of the company in its home state

❷ This should only be completed if the company has already been registered in the UK

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited

Legislation ❸:

❸ This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts

A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box

☐ **No** Go to **Section A3**

☑ **Yes** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3**

Name of organisation or body ❹: DELOITTE

❹ Please insert the name of the appropriate accounting organisation or body

A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box

☐ **No** Go to **Section A5**

☑ **Yes** Go to **Section A4**

A4 Audited accounts

Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box ☐ **No** Go to **Part 3 'Signature'** ☑ **Yes** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**	❶ Please insert the name of the appropriate accounting organisation or body
Name of organisation or body ❶	DELOITTE	

A5 Unaudited accounts

Unaudited accounts	Is the company required to have its accounts audited? Please tick the appropriate box ☐ **No** ☐ **Yes**

Part 3 Signature

	I am signing this form on behalf of the overseas company
Signature	Signature X [signature] X
	This form may be signed by Director, Secretary, Permanent representative

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form The contact information you give will be visible to searchers of the public record

Contact name Miss SHANTALA RADIA

Company name ELAL ISRAEL AIRLINES LIMITED

Address 16, UPPER WOBURN PLACE

Post town LONDON

County/Region

Postcode W C 1 H 0 A F

Country

DX

Telephone 0207 121 1530

Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register
- ☐ You have completed all sections of the form, if appropriate
- ☐ You have signed the form

Important information

Please note that all this information will appear on the public record

Where to send

You may return this form to any Companies House address:

England and Wales
The Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF14 3UZ
DX 33050 Cardiff

Scotland
The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

Northern Ireland
The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG
DX 481 N R Belfast 1

Further information

For further information, please see the guidance notes on the website at www companieshouse gov uk or email enquiries@companieshouse gov uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk