

EL AL ISRAEL AIRLINES LTD.

2021 ANNUAL REPORT

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Chapter B

Report of the Board of Directors on the State of the Corporation's Affairs

El Al Israel Airlines Ltd.
2021 Periodic Report

GENERAL

We are pleased to submit the Report of the Board of Directors on the State of the Corporation's Affairs for 2021. El Al Israel Airlines Ltd. operates mainly in the field of air transport of passengers and cargo between Israel and foreign countries. The Company also provides transportation and maintenance services at its home port, sells duty-free products, and has ancillary activities through investee companies – the main ones being the production and supply of food for aircraft and the management of several travel agencies abroad.

The business environment in which the Company operates is the civil international aviation industry and tourism to and from Israel, which is characterized by a high level of competition, which worsens during periods of overcapacity, and with high sensitivity to the economic, political and security situation in Israel and around the world, and even more while dealing with the Corona crisis, as detailed below.

STATEMENT OF THE BOARD OF DIRECTORS AND MANAGEMENT REGARDING THE COMPANY'S PLANS IN THE SHORT- AND MEDIUM-TERM REGARDING THE CONSEQUENCES OF THE CRISIS AND MEASURES TAKEN TO DEAL WITH THEM

Development of the crisis

At the end of 2019, an outbreak of the Corona virus (COVID-19) began worldwide, including in Asian countries, Europe and the United States. The outbreak of the virus was declared a global health emergency at the end of January 2020, and on March 11, 2020 the outbreak was classified as a global pandemic.

Since the beginning of the event, the Ministry of Health in Israel has issued various announcements regarding restrictions that apply to outgoing and returning passengers from different countries around the world of varying types and intensities depending on the development of the pandemic and the morbidity status in Israel and around the world. The Ministry of Health's announcements, as well as instructions received from various entities in Israel and around the world, caused a significant decrease in demand and the cancellation of flights, more so in 2020 and early 2021, at times until the Company's scheduled passenger flights ceased.

Accordingly, the Company constantly makes operational and commercial changes and adjustments in its activity and in the route network, taking into account, among other things, maintaining air contact to and from Israel in relation to transportation of passengers and cargo and the provision of solutions to the Company's customers if possible.

The following is the development of the pandemic and the restrictions throughout the period:

- Initially, at the end of January 2020, the Company temporarily suspended its flights to Beijing (China) and then also adjusted its operations on routes to Hong Kong and Bangkok, and to various destinations in Europe and North America until there was a complete cessation of its scheduled passenger flights from the end of March to the end September 2020.

- In October 2020, began phasing in passenger flights to Greece and gradually resumed operations to the US, England, France and other destinations and also began operating routes to Dubai and the Seychelles. At the end of December 2020, with the Israeli government's decision regarding isolation at a hotel for travelers returning from all destinations, the Company made adjustments in the flight schedule to Dubai and Seychelles destinations.
- With the entry effect of the third closure, in January 2021, the Company continued its activities until the date of closing Ben Gurion Airport to passenger traffic on January 26, 2021. With the lifting of the closure on Ben Gurion Airport on February 21, 2021, the Company gradually began to resume operations.
- During July 2021, the spread of the Delta strain of the Corona virus began, which gradually resulted in the return of restrictions on aviation and a decrease in demand, which was reflected, among other things, in a decrease in airline ticket sales in the third quarter. However, at the end of August 2021, with the government's approval of the outline to ease the restrictions imposed due to the pandemic, and in particular, the restrictions related to the departure of Israelis to destinations abroad, the recovery in demand and sales of airline tickets by the company has resumed.
- During the month of November 2021, the spread of the Omicron strain of the Corona virus began in European countries. The spread of the Omicron first in Europe and then in Israel led to the government's closure of Israel's skies, which affected demand and sales. With the government's approval to reopen the skies, there was an increase in the Company's sales. This trend continued and strengthened subsequent to the date of the statement of financial position.

The extent of activity and a look to the future

Below are details regarding the extent of the Company's activity compared to 2019 by quarter in the years 2020-2021.

	Q4/21	Q3/21	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20
Rate of revenues compared to the corresponding period in 2019	51%	39%	38%	27%	22%	6%	26%	75%
Extent of activity compared to the corresponding period in 2019 (in terms of ASK (seat-km))	46%	38%	31%	10%	13%	0%	2%	83%

The above table shows the dramatic impact of the crisis on the extent of the Company's activity in 2020. In addition, the above data also indicate a significant recovery during 2021, which intensified as the year progressed, despite the various traffic restrictions imposed in the second half of the year due to Omicron and Delta outbreaks and despite "Operation Guardian of the Walls" in the second quarter of the year. The Company estimates that the improvement in the data despite the restrictions indicates the market's adaptation to "living with the pandemic" and relatively stable demand which translate into vibrant activity whenever traffic restrictions are lifted.

Following the trend of improvement in 2021, in the period subsequent to the date of the report until the date of its publication and with the relative decline in the wave of outbreaks due to the

Omicron strain, there was a significant increase in the Company's sales for future periods with the significant removal of traffic restrictions including the removal of restrictions on the entry of tourists into Israel as of March 1, 2022, and in the context of recovery from the Omicron strain in Israel and around the world.

The following are the Company's passenger sales from November 2021 to February 2022 (in USD millions) ¹

Month	November -21	December - 21	January - 22	February 22
Sales	118	51	84	188

The above sales data show the decrease in sales in December as a result of the effect of the Omicron strain, and the increase in sales immediately at the end of the restrictions and even more so in February 2022.

It should be noted that on the grounds of the geo-political situation in Ukraine and Russia, the company follows the developments and considers adjustments, inter alia, on the grounds of instructions from the relevant authorities.

Some of the above information, including the intention to remove restrictions on the entry of tourists into Israel and the projected and expected trend of improvement in sales and orders for 2022, constitutes forward-looking information, within the meaning of the Securities Law. Such forward-looking information does not constitute a proven fact and is based on the information available to the Company and its assessments in the best of its judgment as of a date close to the approval of the report. The realization of these intentions depends, among other things, on the existence of events that are not under the Company's control, including the government's decisions and the recovery trend in the countries around the world and the removal of restrictions on the entry of tourists from Israel to foreign countries. This information may not be realized or may materialize in a significantly different manner, among other things, taking into account the risk factors detailed in Chapter A (Description of the Corporation's Business).

¹ The data are gross sales forecast including airport taxes attributed to them, vouchers, credits and frequent flyer points. In some cases the sales are subject to change by the customers and it should be noted that the revenue from these sales will be recognized not before the attributed flight date.

The Company's approach to dealing with the crisis and future plans

a. Finance:

The crisis described above, which began in 2020 and continued (albeit with an exit and recovery trend) into 2021 resulted in heavy losses, as detailed in Note 1.B to the financial statements, which created significant liquidity difficulties for the Company. In view of this, the Company has operated on several financial levels. The following table summarizes some of the financial actions and the main debt and capital raising carried out by the Company during the crisis. For further information regarding the various raising of funds, the terms of the debt, the details of the agreements and the accounting treatment for them, see Note 1.B to the financial statements.

	Shareholder and interested party injections (USD millions)						Total
	2020	2021			2022		
Controlling shareholder	Issuance of Shares	Issuance and exercise of options	Security Personnel Flight Agreement	11/2021 Agreement	1/2022 Agreement	Contractual Option for Additional Injection	
	107	51		50	20	10	238
State	37		210	7	50	10	314
Public	6	35					41
Other					3		3
	150	86	210	57	73	20	596

The capital injections described in the above table illustrate the continued support given to the Company by the controlling shareholder and by the State and other parties, in the cumulative amount of approx. USD 600 million, whenever the Company experienced restrictions on its operations, to help the Company bridge its cash gaps and meet its obligations despite the consequences of the crisis.

Also, in addition to that stated in the table, in 2020, with the consent of the State and as part of the efforts to bridge its cash flow gaps at that time, the Company released the surplus funds that were in its compensation funds, amounting to approx. USD 97 million.

The Company is also working to maintain a dialogue with the financing entities, including lessors, in order to defer existing debt payments. In this context, the Company deferred loan and lease payments amounting to approx. USD 96 million in 2021. Also during 2021, the Company refinanced existing aircraft through a sale and lease back for a total of approx. USD 44 million.

During 2022, the Company intends to raise additional capital and debt in order to bridge gaps in its cash flow, including against the frequent flyer club's assets and other assets. (Among other things, in accordance with its commitment to the State of Israel, as detailed in Note 1.B to the financial statements).

The Company is continuing negotiations with lenders and creditors to reschedule payments in respect of past debt, to postpone and to receive waivers for current payments. As of the date of publication of the financial statements, the Company has reached agreements with banks,

financial institutions and lessors which are expected to ease the Company's cash flow for the coming periods.

b. Streamlining and savings:

During 2021 and in view of the reduction in the extent of the Company's activity with the outbreak of the Corona crisis, the Company completed a termination of employment process of about 1,900 employees, who constituted close to a third of the Company's workforce.

During the crisis period, and even more so during periods in which traffic restrictions were severe, the Company reduced its wage and operating expenses to the minimum possible, including placing employees on unpaid leave. With the beginning of the recovery and strengthening in the second quarter of 2021, the Company began a gradual return of employees to activity that was adjusted to the level of activity.

Moreover, in October 2021, the Company signed additional collective agreements with representatives of the Board of Directors and the Maintenance and Engineering Committee under which approx. 300 additional employees will voluntarily retire, as part of the adjustment of the Company's activity to the changing volume of activity. This plan was completed mainly during the first quarter of 2022.

In the long-term, the salary reductions and personnel reductions will enable the Company to save on salary costs even when returning to operations on a more significant scale, including long-term permanent savings.

Also according to its business plan, the Company expects efficiencies in non-salary expenses, amounting to tens of millions of USD per year, which will be achieved, among other things, by changes in work processes, savings in excess inputs and maximization of the Company's existing resources, so that the savings will remain to the credit of the Company even when the scope of activity returns to full activity.

c. Operations:

Regarding operations, during 2021, the Company worked to create a flight routine that meets the requirements of the various regulators during the recovery period, especially with regard to the issue of passenger health and traffic restrictions, in a way that will maximize the Company's production capacity given those restrictions. For this purpose, the Company has started operating its flights in various ways, including from a health safety aspect in relation to the Corona pandemic, including pre-flight activities, all in order to enable flights that comply with the regulations while maximizing the traffic volume possible given the restrictions at Ben Gurion Airport.

d. Commerce:

In view of the crisis which led to significant changes in the market structure, in the short term in particular, the Company makes adjustments to the flight schedule on active routes according to the intensity of demand, expands flight activity to routes where there is a recovery in demand, suspends activity where there is a significant decrease in the volume of demand or in

destinations where there are strict restrictions determined by the State of Israel or by the destination country and conducts a facilitating commercial policy, which allows, among other things, flexibility for the Company's customers in changing the flight date, canceling the flight ticket in exchange for a flexible cash voucher for future use.

The Company is also working to market sales activities to encourage demand for tourism from Israel and is working with the relevant authorities to remove barriers to entry and exit from Israel.

In addition, the Company is currently exploring ways to expand the use of its super brand "EL AL" among Israelis and those with a connection to the State of Israel around the world, among other things, into areas related to the Company's area of activity such as tourism and hotels, in order to increase the Company's revenues and diversify its revenue sources. In this context, see also Note 21.B to the financial statements regarding the signing of a nonbinding memorandum of understanding for the acquisition of Arkia. In addition, the Company is preparing a new value proposition for members of the frequent flyer club, which the Company considers an important source of revenue and a significant growth engine.

In conclusion, the recovery data in 2021 indicate vibrant demand in the markets in which the Company operates. Therefore, reliance on the strong Israeli aviation market which has shown impressive recovery capabilities in previous crises, and with the removal of traffic restrictions as indicated by the "living with the pandemic" policy trend, together with the implementation of the financial measures listed above, the unprecedented streamlining of Company costs, the perception of the Company as Israel's national carrier and the iconic brand among its customers and the Company's strong customer club will all enable the Company, after the aforementioned financing sources have been utilized, with the continued recovery in the markets in general and the aviation market in particular, to return to profitability.

...

The above information constitutes forward-looking information, within the meaning of the Securities Law. Such forward-looking information does not constitute a proven fact, and is based, among other things, on the Company's forecasts, assessments and estimates on the date of publication of this report, the realization of which is uncertain and not under the control of the Company. There is no certainty that the Company will be able to implement the expected efficiency measures, that the relevant markets and the Company's operations will recover as expected, or that the Company's results will enable it to meet its commitments for 2021 and 2022. The non-realization of the forward-looking information, or its realization differently (and even substantially differently) from expectations may also be caused by deterioration in the morbidity situation around the world, changes in flight habits before there will be a complete global recovery from the Corona virus or due to the materialization of any of the risk factors characterizing the Company's activity as well as developments in the economic environment in which the Company operates and in the risk factors that may affect the Company's activity.

A. BOARD OF DIRECTORS' EXPLANATIONS REGARDING THE STATE OF THE CORPORATION'S BUSINESS

A1. KEY DATA

During routine times, the Company's activity is characterized by high seasonality and therefore the Company compares its performance with the performance in the corresponding quarter last year. At present, since the Company is operating in a commercial and operational environment that is impacted by traffic restrictions and by the development and recovery from the pandemic, the Company considers it appropriate to compare the results of its operations not only in relation to the corresponding quarter last year but also in relation to the previous quarter. Accordingly, the following is an explanation regarding the comparison between the results of operations in the fourth quarter in relation to the third quarter of 2021.

KEY DATA FOR THE FOURTH QUARTER IN RELATION TO THE THIRD QUARTER OF 2021 (IN USD MILLIONS)

	Q4/2021	Q3/2021	Change
Volume of activity in relation to 2019	46%	38%	
Operating revenue	265	253	5%
EBITDAR	11	3	212%
ADJ EBITDAR*	8	2	300%
Loss before taxes on income	(110)	(137)	(19%)
Loss before tax for the period adjusted for exceptional items*	(95)	(95)	
Loss for the period	(110)	(136)	(19%)
Cash flows from operating activities	(11.0)	(86.6)	(87%)

* The adjustments are, as the case may be, other expenses or income related to accounting for previous years in respect of Corona discounts and provisions for retirement plans, as well as impairment of aircraft retiring from service.

- In the fourth quarter of 2021, despite the significant traffic restrictions that applied to the Company and the industry at the end of the quarter due to the spread of the Omicron strain, the Company was able to continue to increase its activity. Accordingly, there was an increase in the Company's EBITDAR, representing operating profit less depreciation and leases and non-recurring reorganization expenses by approx. USD 8 million compared to the third quarter that was affected by the spread of the Delta strain. The EBITDAR in the fourth quarter of 2021 includes accounting recognition of government assistance in the amount of approx. USD 11.9 million, as detailed in Note 20.E to the financial statements.
- The adjusted net loss in the fourth quarter is without significant change from the corresponding quarter, mainly due to an increase in financing expenses which offset the improvement in EBITDAR as detailed above, among other things due to exchange rate differences and financing expenses in respect of the financing agreement with the State for the advance purchase of flight tickets for aviation security, as detailed in Note 1.B to the financial statements.
- The Company's cash flow, which was used in operating activities, amounted to a negative amount of approx. USD 11 million in the fourth quarter, compared to a negative amount of approx. USD 87 million in the third quarter. Most of the

improvement stems from an improvement in the Company's working capital, mainly due to an increase in sales for future periods.

The following are the main data for the year ended December 31, 2021 and 2020.

	January - December			October - December		
	2021	2020	Change	2021	2020	change
Volume of activity in relation to 2019	32%	21%		46%	13%	
Operating revenue	857	623	38%	265	112	137%
EBITDAR	37	(47)		11	(30)	136%
ADJ EBITDAR*	22	(47)		8	(30)	126%
Loss before taxes on income	(423)	(562)	(25%)	(110)	(143)	(23%)
Loss before tax for the period adjusted for exceptional items*	(382)	(434)	(12%)	(95)	(137)	(30%)
Loss for the period	(413)	(531)	(22%)	(110)	(140)	(21%)
Cash flows from operating activities	(1)	(138.8)	100%	(11.0)	(84.2)	(87%)

* The adjustments are, as the case may be, other expenses or income in respect of accounting for previous years in respect of Corona discounts and provisions for retirement plans, impairment in respect of aircraft retiring from service and financing expenses in respect of ineffective hedging.

- In the fourth quarter of 2021, the Company's EBITDAR increased by approx. USD 11 million compared to USD (30) million in the corresponding quarter last year, and this is in view of the almost complete halt in the Company's activity in the corresponding quarter last year, compared to the recovery activity in the current quarter.
- In 2021, there was an improvement of approx. USD 84 million in EBITDAR compared to 2020, which is due to an improvement in contributions between periods, whereas in 2021 activity began to recover and there was an increase in the volume of activity and in revenues, while in 2020, the first quarter was characterized by substantial loss activity due to the outbreak of the crisis and the time required for the Company to respond and halt activity, while the other quarters in 2020 were characterized by minimal activity to an almost complete halt.

A2. OVERVIEW OF DEVELOPMENT IN THE BUSINESS ENVIRONMENT AND OPERATIONAL METRICS

A2.1 OVERVIEW OF THE BUSINESS ENVIRONMENT IN WHICH THE COMPANY OPERATES –

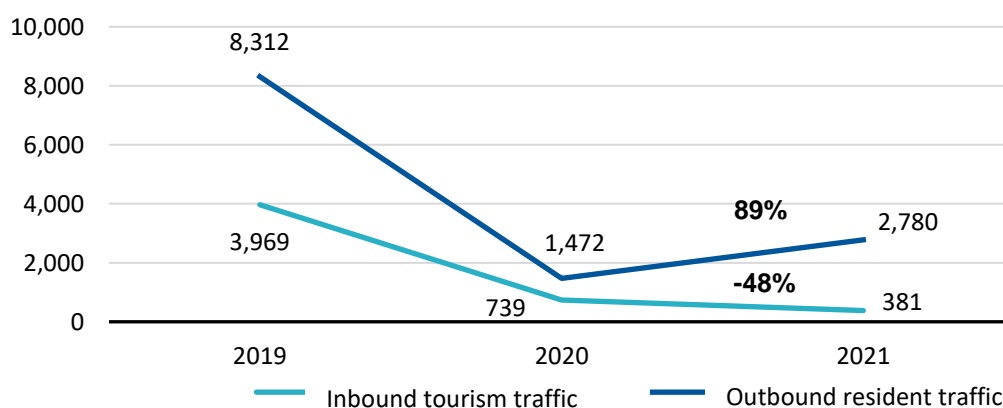
For the Year ended December 31

Traffic at Ben Gurion Airport:

The following diagrams describe the development of passenger traffic at Ben Gurion Airport, divided between outbound residents and inbound tourism, and of cargo traffic divided between exports and imports. In 2021, there was an increase in residents traffic of approx. 89%, as starting in the second quarter of 2021, there was a significant recovery in the outgoing resident traffic, which led to an increase in the total traffic in 2021 compared to the corresponding period last year. In the inbound tourist traffic, there was a decrease of approx. 48% compared to 2020, a sharp decrease in inbound tourism, due to the ban on tourists entering Israel starting in March 2020, which has not yet been removed (except for insignificant short periods) in 2021. See the preamble above regarding the government's decision to remove the restriction on the entry of tourists to Israel as of March 1, 2022.

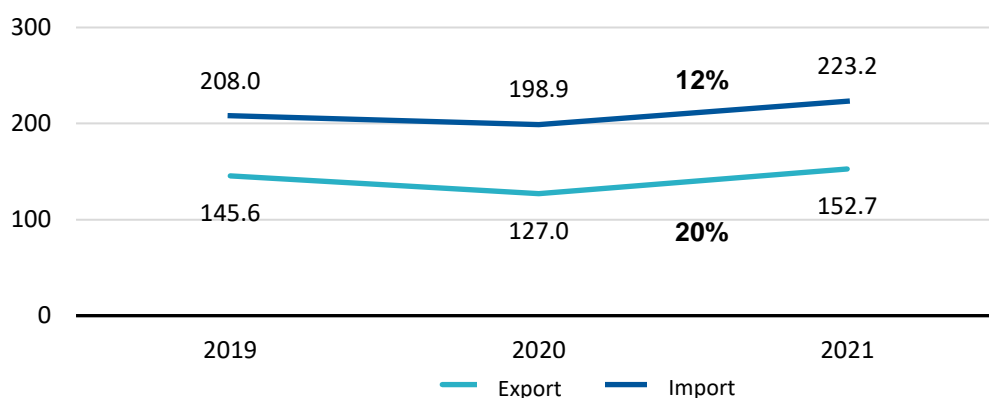
In cargo traffic, there was an increase of approx. 12% in imports and approx. 20% in exports compared to 2020.

INBOUND TOURISM TRAFFIC INTO ISRAEL AND OUTBOUND RESIDENTS (IN THOUSANDS)²



² Source: The Central Bureau of Statistics

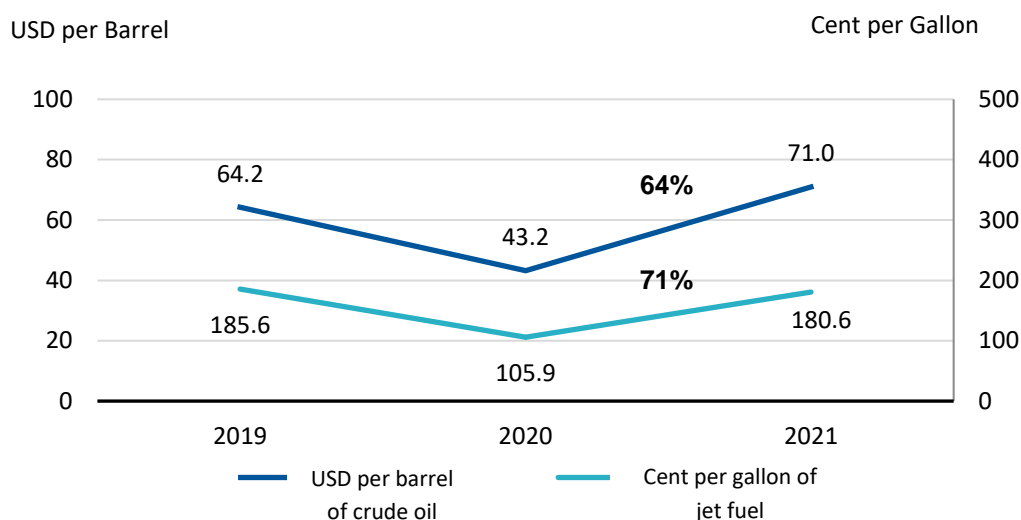
IMPORT AND EXPORT OF CARGO BY AIR TO AND FROM ISRAEL (IN THOUSANDS OF TONS) ³



Jet fuel:

In 2021, there was a sharp increase in the price of jet fuel compared to 2020, as demonstrated in the following chart – 64% in the price of crude oil and 71% in the price of jet fuel. In 2020, the Corona crisis caused a sharp decline that began towards the end of February 2020 and continued even more so during March and in the second quarter of that year. Regarding the development in jet fuel prices subsequent to the date of the statement of financial position, see Chapter E below.

DEVELOPMENT OF THE PRICE OF JET FUEL AND THE AVERAGE CRUDE OIL IN THE MARKET ⁴



Exchange rates

The following graph shows the average exchange rates of the NIS against the USD in each year. In 2021, the USD weakened against the NIS by approx. 6.2% compared to 2020. The average exchange rates have an effect on the Company's NIS expenses, mainly on salaries.

³ Source: Israel Airports Authority

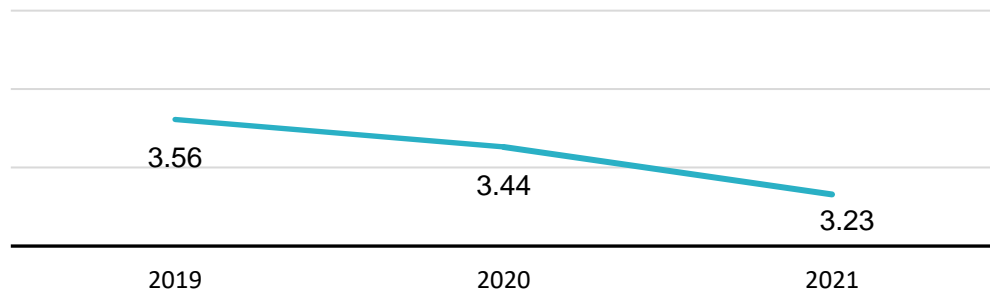
⁴ Source: the Bloomberg system

As of December 31, 2021, the exchange rate of the NIS against the USD was approx. 3.11, compared to a rate of approx. 3.22 as of December 31, 2020, which reflects the weakening of the USD against the NIS by approx. 3%.

These exchange rates have an effect on the Company's balance sheet balances denominated in NIS, see Chapter B of this report. In addition, the effect of the strengthening of the average exchange rate of the NIS against the USD has a negative effect on the results of the Company's operations as a result of significant exposure to wages and other NIS expenses, while revenues are mainly in USD.

The following is the development of the exchange rate of the NIS against the USD in the last three years:

DEVELOPMENT OF AVERAGE NIS/USD EXCHANGE RATE

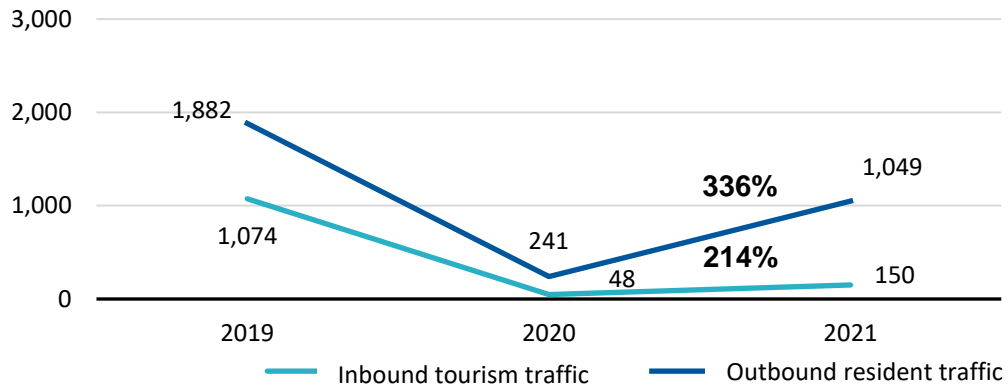


For the Three-Month Period ended December 31

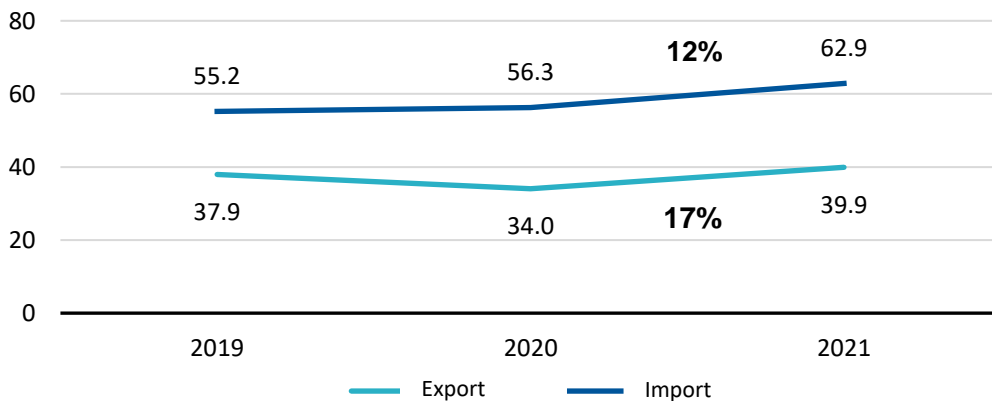
In the fourth quarter of 2021, there was a significant recovery in passenger traffic compared to the fourth quarter of 2020, when there was an almost complete halt in the inbound tourism traffic and the outbound resident traffic due to the Corona pandemic. In cargo traffic, there was an increase of approx. 12% in imports and approx. 17% in exports compared to the corresponding period last year.

Traffic at Ben Gurion Airport:

INBOUND TOURISM TRAFFIC INTO ISRAEL AND OUTBOUND RESIDENTS (IN THOUSANDS) ⁵



IMPORT AND EXPORT OF CARGO BY AIR TO AND FROM ISRAEL (IN THOUSANDS OF TONS) ⁶



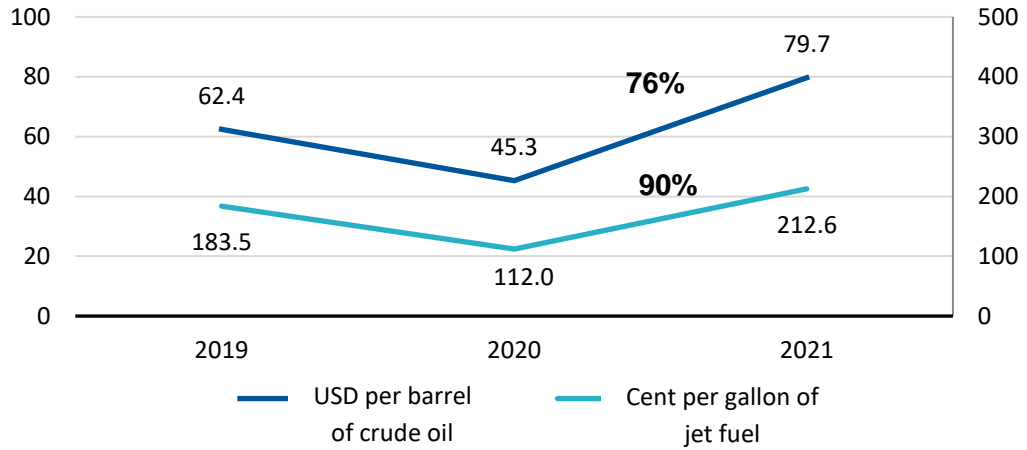
⁵ Source: The Central Bureau of Statistics

⁶ Source: Israel Airports Authority

Jet fuel:

In the fourth quarter of 2021, there was an increase in the price of jet fuel of 76% in the price of a barrel of crude oil and 90% in the price of jet fuel, compared to the prices in the fourth quarter of 2020. It should be noted that in 2020, there was a sharp decline from the end of February due to the Corona crisis.

DEVELOPMENT OF THE PRICE OF JET FUEL AND THE AVERAGE CRUDE OIL IN THE MARKET ⁷



⁷ Source: the Bloomberg system

A2.2 THE COMPANY'S OPERATIONAL METRICS AND MARKET SHARES –

During 2021 there was a recovery in the Company's activity which resulted in an increase in all operational parameters.

FOR THE YEAR ENDED DECEMBER 31

	2021	2020	Change
El Al and San D'or			
Regular passenger and charter segments (paying passengers) - in thousands	1,377	905	52.0%
Total market share – in percentages	23.0%	20.3%	13.3%
Passenger - Airborne kilometers (RPK) - in millions	6,346	4,097	54.9%
Seat - available kilometers (ASK) - in millions	9,265	5,923	56.4%
ASK % compared to the corresponding period in the year 2019	32%	21%	
Passenger load factor (PLF) - in percentages	68.5%	69.2%	(1.0%)
Flight hours (on passenger flights) - in thousands	52.5	35.1	49.3%
RRPK *	8.2	7.7	6.6%
RASK	5.62	5.33	5.6%
Tons of airborne cargo - in thousands	81.5	67.0	21.6%
Revenue ton kilometers (RTK) - in millions	512.1	403.1	27.0%
Aircraft Fleet **			
Number of aircraft in operation at the end of the period - in units	45	45	-
Average age of the aircraft fleet at the end of the period - in years	10.9	9.9	1.0

* Passenger revenues and ancillary revenues on scheduled and charter flights and neutralizing a change in exchange rates.

** Aircraft fleet – owned and leased aircraft. It should be noted that the operational metrics included in this note (in 2020 regarding cargo only) also include flights operated by aircraft on a “wet” lease (a lease of an aircraft with its crew), which are not included in the fleet aircraft count.

Legend

Passenger Segment – One-way flight voucher.

RPK (Revenue Passenger Kilometer) – The number of paying passengers multiplied by the flight distance.

ASK (Available Seat Kilometer) – The number of seats offered for sale multiplied by the flight distance.

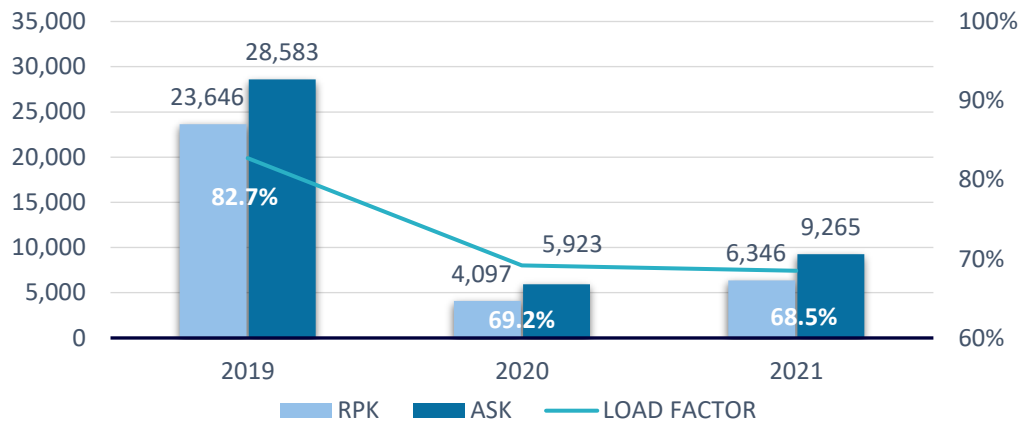
PLF (Passenger Load Factor) – Passenger occupancy RPK/ASK.

RRPK – Average Revenue to RPK.

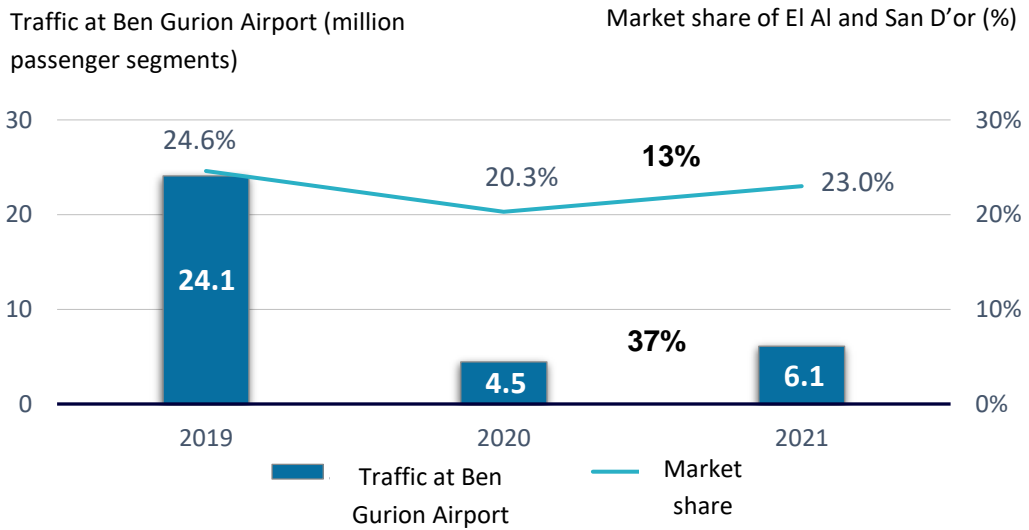
RASK – Revenue per Available Seat Kilometer - Revenues divided by ASK.

RTK (Revenue Ton Kilometer) – The weight of paid air cargo in tons multiplied by the flight distance.

Operational metrics (in millions)



TRAFFIC AT BEN GURION AIRPORT AND THE MARKET SHARE OF EL AL AND SAN D'OR AS OF DECEMBER 31 ⁸



⁸ Source: Israel Airports Authority

FOR THE THREE-MONTH PERIOD:

	Q4/2021	Q3/2021	Q4/2020	Q4/21 Vs. Q3/21
El Al and San D'or				
Regular passenger and charter segments (paying passengers) - in thousands	486	487	89.5	(0.3%)
Total market share – in percentages	20.8%	21.6%	16.0%	(3.7%)
Passenger - Airborne kilometers (RPK) - in millions	2,175	2,270	357	(4.2%)
Seat - available kilometers (ASK) - in millions	3,088	3,180	876	(2.9%)
ASK % compared to the corresponding period in the year 2019	46%	38%	13%	
Passenger load factor (PLF) - in percentages	70.4%	71.4%	40.7%	(1.3%)
Flight hours (on passenger flights) - in thousands	18.1	18.5	4.8	(2.4%)
RRPK	8.2	8.0	9.3	2.7%
RASK	5.77	5.64	3.79	2.4%
Tons of airborne cargo - in thousands	19.5	18.2	21.0	7.4%
Revenue ton kilometers (RTK) - in millions	126.1	113.4	137.5	11.2%

During July in the third quarter of 2021 the spread of the Delta strain began which led to the return of restrictions on aviation and a decrease in demand. At the end of August 2021 there was a recovery due to government approval for passenger traffic relief. During November in the fourth quarter of 2021, the spread of the Omicron strain began in Europe and later also in Israel, which later led to the closing of Israel's skies during December.

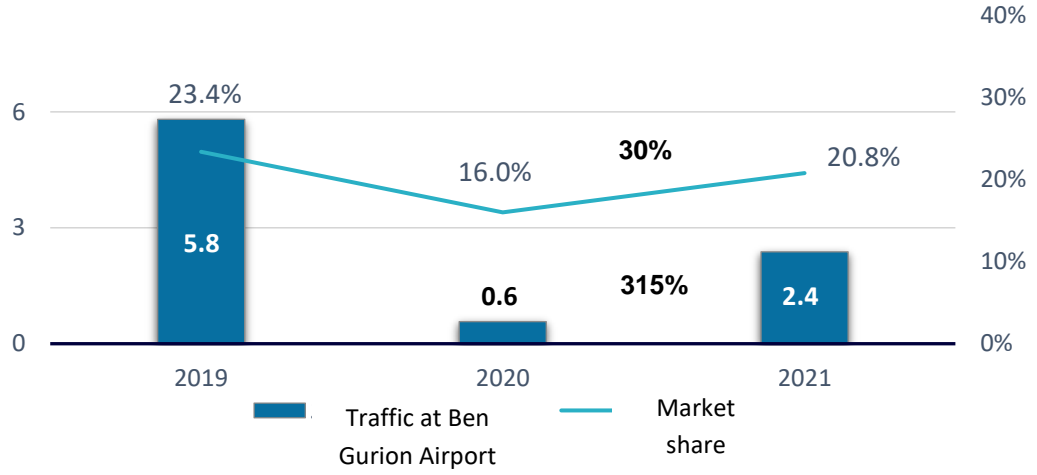
As a result, there was a decrease in the supply of seats (ASK) by approx. 2.9% and in passenger-km (RPK) by 4.2% in the fourth quarter compared to the third quarter of 2021. The Company's load factor decreased by approx. 1.3%.

In the fourth quarter, there was an increase of 7.4% in the amount of airborne cargo in tons and an increase of 11.2% in distance-weighted airborne cargo (RTK) compared to the third quarter of 2021.

THE TRAFFIC AT BEN GURION AIRPORT AND THE MARKET SHARE OF EL AL AND SAN D'OR ⁹

Traffic at Ben Gurion Airport

Market share of El Al and San



⁹ Source: Israel Airports Authority
2021

A3. ANALYSIS OF THE COMPANY'S BUSINESS RESULTS –

The Company's statements of profit or loss are presented below, including the rate of turnover and the rate of change compared to last year. Also presented are the main factors that affected the Company's results in the reporting periods compared to the corresponding period last year.

FOR THE YEAR ENDED DECEMBER 31

	2021		2020		Change	
	USD thousands	% of Turnover	Thousands of dollars	% of Turnover	Thousands of dollars	%
Operating revenue	857,167	100.0%	623,075	100.0%	234,091	37.6%
Operating expenses	(960,477)	(112.1%)	(800,403)	(128.5%)	(160,074)	20.0%
Gross loss	(103,310)	(12.1%)	(177,327)	(28.5%)	74,017	(41.7%)
Sales expenses	(88,361)	(10.3%)	(60,709)	(9.7%)	(27,652)	45.5%
General and administrative expenses	(99,838)	(11.6%)	(101,996)	(16.4%)	2,159	(2.1%)
Other expenses, net	(28,932)	(3.4%)	(24,267)	(3.9%)	(4,665)	19.2%
Operating loss	(320,441)	(37.4%)	(364,300)	(58.5%)	43,859	(12.0%)
Financing expenses, net	(102,728)		(196,456)		93,728	
Company share in losses of associate and revaluation of its options	-		(801)		801	
Loss before taxes on income	(423,169)		(561,557)		138,388	
Tax benefit	10,125		30,520		(20,395)	
Loss for the year	(413,044)		(531,037)		117,993	

Operating revenue

Operating revenue increased in the reporting period by approx. USD 234.1 million, approx. 37.6% compared to revenues in 2020. Revenues from passenger flights amounted to approx. USD 540 million compared to approx. USD 322 million last year when passenger activity stopped almost completely from the second quarter, while in 2021 there was a recovery trend, as explained in Section A2.1 above.

Revenues from cargo in 2021 increased by approx. USD 13.5 million, an increase of approx. 5% compared to cargo revenues in 2020. As a result of the cessation of passenger aircraft operations in the corresponding quarter, there was a decrease in capacity offered by the Company and a decrease in the amount of air cargo last year that was affected by the halting of passenger aircraft activity.

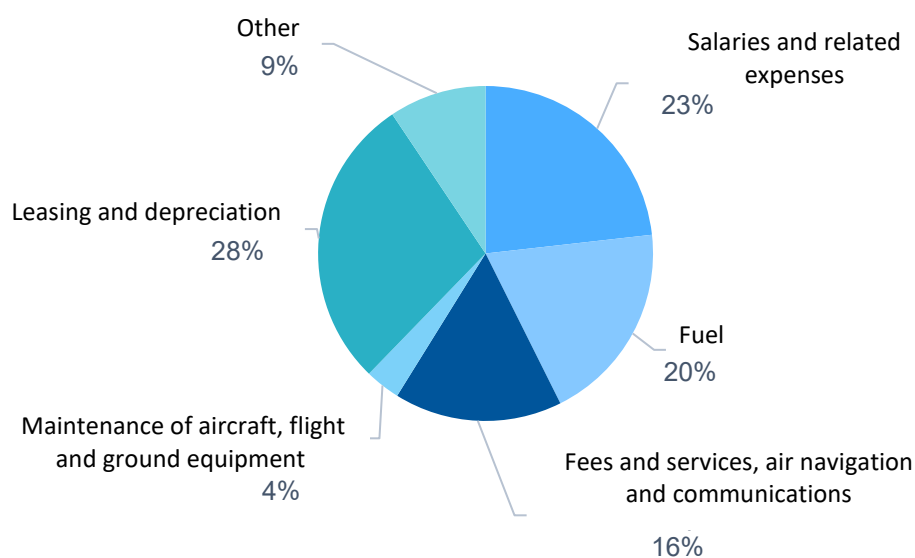
Operating expenses

The Company's operating expenses in 2021 amounted to approx. USD 960 million. Of this amount, approx. USD 272 million is in respect of depreciation expenses (including the depreciation of right-of-use leased assets and depreciation to the net realizable value in respect of aircraft that were retired from service in the amount of approx. USD 43 million, as detailed in Note 10.C to the financial statements) and other fixed expenses in connection with aircraft and engine leases.

The increase in activity compared to 2020, during which there was an almost complete halt in passenger flight activity due to the Corona crisis, was reflected in an increase in operating expenses in 2021 of approx. USD 160 million, an increase of approx. 20.0% compared to 2020, as follows:

- An increase in operating salary expenses in the amount of approx. USD 30 million due to the return of employees who were on unpaid leave as a result of an increase in activity, as well as a negative effect of exchange rates.
- An increase in jet fuel expenses in the amount of approx. USD 55 million, as detailed below.
- An increase in other variable expenses that depend on activities such as: air navigation, fees and services at airports, food supply for aircraft, etc.

Distribution of operating expenses for 2021



Jet fuel expenses

The Company's jet fuel expenses increased in 2021 by approx. USD 54.5 million compared to 2020, mainly as a result of an increase in the market price of jet fuel and from an increase in the amount of fuel consumed by the Company's aircraft due to the increase in activity. On the other hand, in 2021 the hedging transactions reduced the jet fuel expenses while in 2020 the hedging transactions increased the jet fuel expenses which expired in the first quarter and were recognized as effective. The other hedging transactions in 2020 and in the first quarter of 2021 were not recognized as effective and were therefore recognized in financing expenses.

	2021	2020	Difference
Jet fuel expenses for the period (before the effect of hedging)	199.3	116.4	82.9
Effect of jet fuel hedging transactions on operating profit	<u>(12.8)</u>	<u>15.6</u>	<u>(28.4)</u>
Total jet fuel expenses	186.5	132.0	54.5
Jet fuel quantity consumed (in millions of gallons)	99.4	78.5	20.9

For further information regarding the hedging of jet fuel prices, see Chapter B below. For further information regarding the effect of derivative financial instruments on the financial statements, see Note 19 to the financial statements.

Sales expenses

Sales expenses increased by approx. USD 27.7 million compared to 2020, resulting from an increase in sales commissions and distribution costs due to the increase in sales, and from an increase in salary expenses due to the return of employees from unpaid leave.

General and administrative expenses

General and administrative expenses decreased by approx. USD 2.2 million compared to 2020, despite a return to relative activity in 2021, among other things due to the Company's streamlining and reduction in its expense structure.

Other expenses

Other net expenses amounted to approx. USD 28.9 million, mainly as a result of the depreciation of aircraft designated for retirement from service as stated in Note 10.C to the financial statements, in the amount of approx. USD 43 million and from the provision for dismissal benefits in the amount of approx. USD 16 million due to the provision for an additional voluntary retirement plan as stated in Note 15.I to the financial statements, which was partially offset by revenue in the amount of approx. USD 15 million due to rent adjustments during the Corona crisis and the accounting recognition of the government grant resulting from the agreement with the State for the prefinancing of flight tickets for the aviation security system personnel in the amount of approx. 12 million as stated in Note 13.A to the financial statements.

In 2020, other expenses amounted to approx. USD 24.3 million, mainly as a result of a provision for severance pay in the amount of approx. USD 45 million, which was partially offset by income from the reversal of a provision for a State claim and capital gains from the sale of engines and spare parts.

Financing expenses

Net financing expenses amounted to approx. USD 102.8 million, compared to approx. USD 196.5 million in 2020. Most of the decrease is due to an expense of approx. USD 91.5 million in 2020 compared to income of approx. USD 4.1 million in 2021, from jet fuel hedging transactions that were not recognized in accounting as effective due to the decrease in activity relative to the activity planned when the hedging transaction was carried out. On the other hand, financing expenses for the period increased due to the recognition of expenses in the amount of approx. USD 14.8 million as a result of the agreement with the State for the advance financing of airline tickets for the aviation security system personnel (see Note 13.A to the financial statements).

Loss before taxes

For all the above reasons, the pre-tax loss in 2021 amounted to approx. USD 423.2 million, compared with a pre-tax loss of approx. USD 561.6 million in 2020.

Tax benefit

The tax benefit in 2021 amounted to approx. USD 10.1 million, compared with a tax benefit of approx. USD 30.5 million in 2020. Due to the uncertainty prevailing in the company's industry, the company does not expect taxable income in the near future, and does not recognize a deferred (net) tax asset in its financial statements. Therefore, the tax benefit is partially recognized until the reset of the liability (asset) balance, net of deferred taxes.

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31

	2021		2020		Change	
	USD thousands	% of Turnover	Thousands of dollars	% of Turnover	Thousands of dollars	%
Operating revenue	264,784	100.0%	111,637	100.0%	153,147	137.2%
Operating expenses	(282,899)	(106.8%)	(177,573)	(159.1%)	(105,327)	59.3%
Gross loss	(18,116)	(6.8%)	(65,936)	(59.1%)	47,820	(72.5%)
Sales expenses	(27,737)	(10.5%)	(11,745)	(10.5%)	(15,992)	136.2%
General and administrative expenses	(29,574)	(11.2%)	(30,305)	(27.1%)	731	(2.4%)
Other expenses, net	(1,958)	(0.7%)	(14,956)	(13.4%)	12,997	(86.9%)
Operating loss	(77,385)	(29.2%)	(122,941)	(110.1%)	45,556	(37.1%)
Financing expenses, net	(33,087)		(20,087)		(13,000)	
Loss before taxes on income	(110,472)		(143,029)		32,557	
Tax benefit	369		2,884		(2,515)	
Loss for the period	(110,103)		(140,145)		30,042	

Operating revenue

Operating revenue increased in the current quarter by approx. USD 153.1 million, approx. 137.2% compared to revenues in the corresponding quarter last year. Revenues from passenger flights increased by approx. USD 147 million, approx. 445%. The increase in revenue from passenger flights is due to an almost complete cessation of passenger flights in the corresponding quarter last year.

Revenue from cargo in the current quarter increased by approx. USD 2.4 million (approx. 3.3%) compared to cargo revenue in the corresponding quarter last year, as a result of an increase in yield per ton-kilometer.

Operating expenses

Operating expenses in the current quarter increased by approx. USD 105.3 million, an increase of approx. 59.3% compared to the corresponding quarter last year, as follows:

- An increase in jet fuel expenses in the amount of approx. USD 40.4 million, as detailed below.
- An increase in operating salary expenses in the amount of approx. USD 29 million due to the return of employees who were on unpaid leave as a result of an increase in activity, as well as a negative effect of exchange rates.
- An increase in other variable expenses that depend on activities such as: air navigation, fees and services at airports, food supply for aircraft, maintenance of aircraft and engines, etc.

Jet fuel expenses

The Company's jet fuel expenses increased in the current quarter by approx. USD 40.4 million (an increase of approx. 199%) compared to expenses in the corresponding quarter last year, mainly due to the increase in the amount of fuel consumed by the Company's aircraft and the increase in the jet fuel market prices, which was partially offset by the positive effect of the hedging transactions that expired in the reporting period, as detailed in the following table.

THE FOLLOWING TABLE REFLECTS THE EFFECT OF JET FUEL EXPENSES ON THE COMPANY'S RESULTS, INCLUDING THE EFFECT OF HEDGING TRANSACTIONS (IN USD MILLIONS)

	2021	2020	Difference
Jet fuel expenses for the period (before the effect of hedging)	69.1	20.3	48.8
Effect of jet fuel hedging transactions on profit and loss	<u>(8.4)</u>	-	<u>(8.4)</u>
Total jet fuel expenses (including the effect of hedging)	60.6	20.3	40.4
Jet fuel quantity consumed (in millions of gallons)	29.6	16.0	13.6

For further information regarding the hedging of jet fuel prices, see Chapter B below. For further information regarding the effect of derivative financial instruments on the financial statements, see Note 19 to the financial statements.

Sales expenses

Sales expenses increased by approx. USD 16.0 million compared to the corresponding quarter last year, mainly due to an increase in commission expenses and distribution costs due to the increase in sales and due to an increase in advertising and salary expenses, as explained above.

General and administrative expenses

General and administrative expenses are similar to last year, despite the significant increase in activity between the periods, among other things in the context of the Company's streamlining and improvement of its cost structure.

Other income (expenses)

Other net expenses amounted to approx. USD 2.0 million, mainly as a result of a provision for benefits in respect of dismissal in the amount of approx. USD 18 million, offset by income resulting from the agreement with the State for the pre-financing of flight tickets for aviation security system personnel in the amount of approx. USD 12 million and from income due to rent price adjustments during the Corona crisis. See Notes 15.I and 13.A to the financial statements, as applicable.

Financing expenses

Net financing expenses amounted to approx. USD 33.1 million, compared with approx. USD 20.1 million in the corresponding quarter last year. Most of the increase is due to revenue in the amount of approx. USD 9.4 million recorded in the corresponding period last year in respect of jet fuel hedging transactions that were not recognized in the accounting as effective due to the decrease in activity relative to the activity planned at the time of the hedging transactions and due to the recognition of expenses of approx.

USD 6.3 million in the reporting period as a result of the agreement with the State for the pre-financing of flight tickets for the aviation security system personnel (see Note 13.A to the financial statements).

Loss before taxes

To summarize, the pre-tax loss in the current quarter amounted to approx. USD 110.5 million, compared with a pre-tax loss of approx. USD 143.0 million in the corresponding quarter last year.

Tax benefit

The tax benefit in the current quarter amounted to approx. USD 0.4 million, compared with a tax benefit of approx. USD 2.9 million in the corresponding quarter last year due to the decrease in the loss before taxes. Due to the uncertainty prevailing in the company's industry, the company does not expect taxable income in the near future, and does not recognize a deferred (net) tax asset in its financial statements. Therefore, the tax benefit is partially recognized until the reset of the liability (asset) balance, net of deferred taxes.

A4. SEASONALITY

In general, the Group's activity is affected by seasonality and focuses on peak periods. Heavy traffic of outbound Israeli residents occurs mainly during the summer and holiday periods, and heavy inbound tourist traffic entering Israel occurs during the summer and towards Jewish or Christian holidays or vacations in the countries of origin. This element of the Company's activity is affected by the rate of recovery from the crisis and the extent of return to activity.

A5. CASH FLOWS

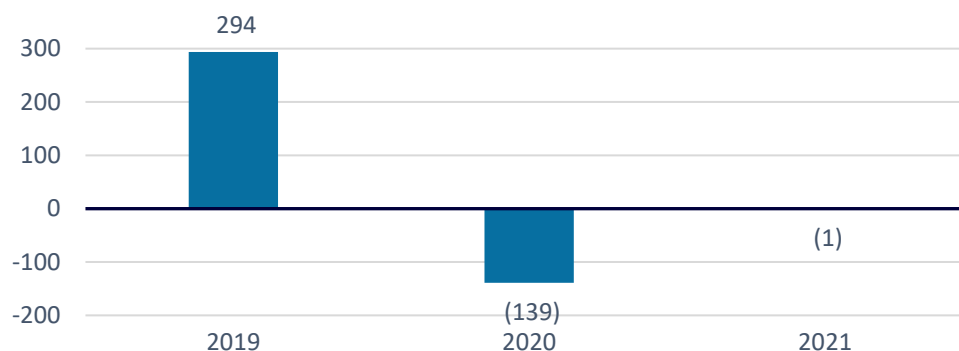
CASH FLOWS IN THE YEAR ENDED DECEMBER 31, 2021 COMPARED TO 2020

	2021	2020	Change
	USD thousands	USD thousands	USD thousands
Net cash flows used in operating activities	(557)	(138,820)	138,263
Net cash flows provided by (used in) investing activities	7,942	(96,990)	104,932
Net cash flows provided by financing activities	15,170	73,201	(58,031)
Impact of changes in exchange rates on cash balances held in foreign currency	(280)	1,600	(1,880)
Increase (decrease) in cash and cash equivalents	22,275	(161,009)	183,284

Cash flows from operating activities

In 2021, the Company had a negligible negative cash flow from operating activities compared to a negative cash flow of approx. USD 139 million in 2020. The improvement in cash flow is comprised mainly of the decrease in the pre-tax loss in the reporting period compared to the corresponding period last year in the amount of approx. USD 138 million (see above regarding the explanation of the business results), from the receipt of funding received from the State by prepayment for the flights of personnel in the aviation security system, which is partially offset by deposits to the trustee for an employee dismissal program in the net amount of approx. USD 172 million (see Note 1B to the financial statements). On the other hand, last year funds were released to the Company due to the surplus in the compensation funds in the amount of approx. USD 97 million and the Company also had a negative cash flow of approx. USD 91 million from an ineffective jet fuel hedge. It should be noted that in 2021, the cash flow was negatively affected due to customer refunds and past payments to suppliers in the cumulative amount of approx. USD 161 million.

DEVELOPMENT OF CASH FLOWS FROM OPERATING ACTIVITIES FOR THE YEARS 2019-2021 (USD MILLIONS)



Cash flows for investing activities

In 2021, the Company had a net cash flow of approx. USD 8 million from investing activities, mainly resulting from the release of deposits provided by the Company as collateral in respect of derivatives in the amount of approx. USD 26 million, from the proceeds of a transaction for the sale and leaseback attributed to the residual value in the amount of approx. USD 2 million. On the other hand, the investment in fixed and intangible assets amounted to approx. USD 20 million.

In 2020, the Company used approx. USD 97 million, net, for investing activities. The investment in fixed assets and intangible assets amounted to approx. USD 118 million, mainly in respect of the payment for the acquisition of a 787-8 aircraft owned by the Company, which was paid just prior to the crisis during the first quarter. A change in deposits in the amount of approx. USD 17 million, mainly due to deposits provided as collateral for interest rate and jet fuel hedging transactions, due to the sharp decline in interest rates and commodity prices in the markets resulting from the economic consequences of the crisis, which led to a sharp increase in the liability value of the Company's derivatives for the hedging of its market risks. On the other hand, the Company had cash flows in the amount of approx. USD 23 million from the proceeds from the sale of engines and spare parts and an additional amount of approx. USD 15 million in consideration for the sale of Maman shares.

Cash flows from financing activities

In 2021, the Company had a net cash flow of approx. USD 15 million from financing activities. During this period, the Company received consideration from the issuance of options in the amount of approx. USD 75 million and from the exercise of options for shares in the amount of approx. USD 9 million. In addition, the Company received a loan in the amount of approx. USD 50 million from the Company's controlling shareholder and a loan in the amount of USD 44.5 million from banking corporations, as well as the amount of approx. USD 3 million from a sale and leaseback transaction, which is not attributed to the residual value and consideration from the issuance of bonds to the State (the liability component as detailed in Note 14.H to the financial statements) in the amount of approx. USD 5 million.

On the other hand, the Company repaid loans in the amount of approx. USD 107 million, a short-term loan from a controlling shareholder in the amount of approx. USD 10 million and lease liabilities in the amount of approx. USD 53 million.

In 2020, the Company had a cash flow of approx. USD 73 million, net, for financing activities. During this period, the Company received proceeds from the issue of shares in the amount of approx. USD 146 million (net of issue costs) and took loans in the amount of approx. USD 121 million, mainly as financing for the third 787-8 aircraft owned by the Company during the first quarter and a bridging loan from a controlling shareholder in the amount of USD 10 million. On the other hand, the Company repaid loans in the amount of approx. USD 157 million, of which approx. USD 31 million was a repayment of a loan that was used to pay advances by obtaining a long-term loan for the financing of the 787-8 aircraft, which was received during the first quarter, as stated. In addition, the Company paid current maturities of lease liabilities in the amount of approx. USD 45 million.

A6. THE COMPANY'S FINANCIAL POSITION, CASH BALANCES AND WORKING CAPITAL

	December 31, 2021	December 31, 2020		December 31, 2021	December 31, 2020
	USD thousands			USD thousands	
Current assets	252,738	185,657	Current liabilities	1,939,099	1,975,335
Non-current assets	2,579,488	2,821,105	Non-Current Liabilities	1,441,906	1,287,523
			Equity	(548,779)	(256,097)
Total	2,832,226	3,006,761	Total	2,832,226	3,006,761

The following are the main changes in the asset, liability and equity items as of December 31, 2021 compared to December 31, 2020

Current assets

The Company's current assets as of December 31, 2021 amounted to approx. USD 253 million, an increase of approx. USD 67 million compared to the balance as of December 31, 2020. The increase was mainly due to an increase in the trade receivable balance as a result of an increase in the Company's volume of sales, which includes a deposit that serves as collateral for credit card receipts in the United States in the amount of approx. USD 35 million, among other things in respect of future periods with the recovery of activity during the reporting period, and from an increase in the balance of cash and cash equivalents.

Current liabilities

The Company's current liabilities as of December 31, 2021 amounted to approx. USD 1,939 million, a decrease of approx. USD 36 million compared to the balance as of December 31, 2020. The decrease is mainly due to a decrease in the balance of employee benefit obligations, mainly due to the payment of amounts to the trustee for liabilities in respect of the cost of the dismissal, as stated in Note 1.B to the financial statements and a decrease in liabilities in respect of derivative financial instruments due to an increase in jet fuel prices, a decrease in the balances of trade payables and a decrease in current maturities of long-term loans, mainly due to current repayments. On the other hand, there was an increase in the 'current maturities' item for leases, mainly due to the deferral of lease payments, and in the balance of payables.

It should be noted that the balance of long-term loans from banking corporations in the amount of approx. USD 936 million as of December 31, 2021 was classified to current liabilities. According to the loan agreements signed by the Company, a significant deterioration in the Company's business is a reason for lenders to demand immediate repayment of the loan. In view of the above, according to the accounting standard, the Company is required to classify the entire balance of the debt as a current liability, even though it has complied with the payments as required.

Working capital

As of December 31, 2021, the Company has a working capital deficit of approx. USD 1,686 million compared to a deficit of approx. USD 1,790 million as of December 31, 2020. In addition to the above regarding the classification of short-term loans and the balance in respect of the State financing (in the 'deferred revenue' item), the current liabilities as of December 31, 2021 also include an amount of approx. USD 52 million for a liability to employees for vacation, which is expected to be paid to employees upon retirement but is classified as a short-term liability in accordance with accounting principles. In addition, the current liabilities include a loan in the amount of USD 31 million for the financing of advances for a Series 787-8 aircraft, which will be repaid through long-term financing that the Company is acting to receive upon receipt of the aircraft. It should be noted that an amount of approx. USD 228 million constitutes deferred revenue from the sale of airline tickets, which in the normal course of the Company's business is not repaid in cash but through the provision of future flight services. The Company's current ratio as of December 31, 2021 increased to approx. 13.0%, compared with approx. 9.4% as of December 31, 2020.

Non-current assets

Non-current assets as of December 31, 2021, amounted to approx. USD 2,579 million, a decrease of approx. USD 242 million compared to their balance as of December 31, 2020, due to a decrease in the depreciated cost of fixed assets and in the right-of-use for leased assets, mainly due to current depreciation and the depreciation to realizable value as a result of retiring aircraft from service, and a decrease in long-term deposits as a result of deposits that were provided as collateral for interest rate hedging transactions and were released in view of the decrease in the negative fair value of the hedging instruments.

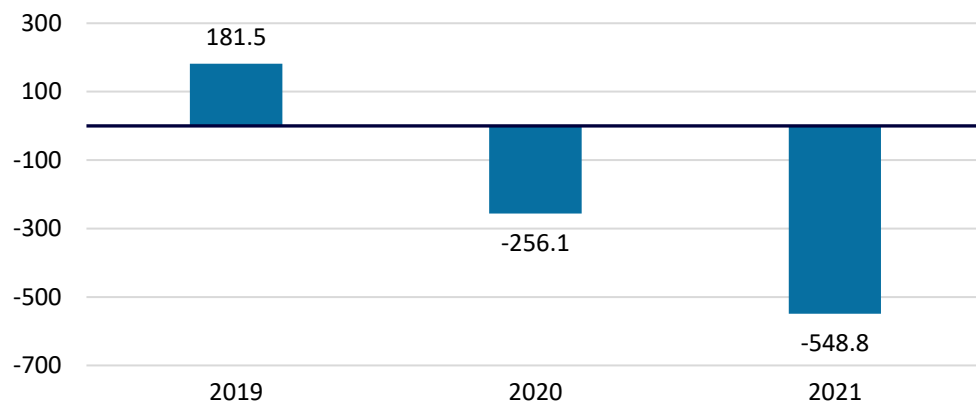
Non-current liabilities

The Company's non-current liabilities as of December 31, 2021, amounted to approx. USD 1,442 million, an increase of approx. USD 154 million compared to their balance as of December 31, 2020, mainly due to an increase in deferred revenue in respect of the agreement with the State for the pre-financing of flight tickets for the aviation security system personnel, as explained in Note 13.A to the financial statements, which was partially offset by a decrease in long-term lease liabilities and financial instruments for hedging interest rates.

Equity

The capital deficit as of December 31, 2021 amounted to approx. USD 549 million. The increase in the amount of USD 302 million in the deficit was affected by the loss for 2021 in the amount of approx. USD 422 million and on the other hand, it was positively affected by the issuance and exercise of options in the total amount of approx. USD 85 million, and by the decrease of approx. USD 35 million in the negative balance of the capital reserves due to a decrease in the negative fair value of the interest rate and jet fuel hedging transactions.

EQUITY AS OF DECEMBER 31 (USD MILLIONS)



The Company's loans and significant credit facilities

For information regarding the Company's loans, see Note 14 to the financial statements.

B. EXPOSURE AND MANAGEMENT OF MARKET RISKS

The following is information regarding the market risks to which the Company is exposed and their management, including the use of hedging transactions. The Company implements hedge accounting and designates hedging transactions as hedging instruments. Regarding the accounting policy in this context and regarding the Company's policy in managing market risks, those responsible for their management, the means of supervision and implementation of the policy, see Note 19 to the financial statements.

Exposure to changes in jet fuel prices

In general, the jet fuel expenses constitute a key component of the Company's operating expenses and affect the Company's profitability. The Company is taking protective measures to reduce exposure.

As of December 31, 2021, the Company had a number of engagements, for the purpose of hedging fuel prices, which cover approx. 21% of the planned consumption for the next 3 months, according to the Company's forecast in relation to the extent of the activity as it was on that date. For the effect of the transactions on profit or loss, see Note 19 to the financial statements. The net fair value of the total jet fuel hedging instruments as of December 31, 2021 is a positive amount of approx. USD 3.1 million.

The following table presents the sensitivity of the jet fuel expenses over a period of the next 12 months (close to the date of publication of the financial statements), in relation to future market prices, expected according to the known curve close to the date of publication of the report, depending on the expected level of activity and as estimated by the Company (under the assumption that all other variables, including the consumption quantity and suppliers' margins, will remain unchanged with respect to the reporting year). It should be noted that due to the relatively low amount of hedging for 2022 in accordance with the state of hedging instruments as of the date of publication of the financial statements, the hedging effect is not expected to be significant.

Change in the Average Market Price in the next 12 Months in relation to the Price close to the Date of Publication of the Report (284 cents/gallon)	Extent of the Effect on Expenses (USD millions)
50%	256
25%	128
-25%	-128
-50%	-256

The rates of change in the market price in the table above were in accordance with the maximum rate of change in jet fuel prices during the period of the Corona crisis.

Exposure to a decrease in aircraft price lists in relation to long-term loans

According to the provisions of some of the agreements for loans taken by the Company from Israeli banks in connection with the purchase of aircraft (it should be noted that these loans are not "reportable credit"), the Company is required to meet the minimum ratio between the market value of the aircraft and the balance of the loans, which are secured by those aircraft (LTV). For information, see Note 14 to the financial statements.

Exposure to changes in the interest rate

Most of the Company's loans bear interest based on the USD Libor interest rate and the interest on some of the loans is hedged through derivatives that are also based on the USD Libor interest rate. In the middle of 2023, the use of the USD Libor interest rate will cease worldwide and new interest rates will begin to be used. At this stage, the Company is unable to assess the effect of the cessation of the use of the Libor interest rate and whether the effect will be significant or not, since the Company has not yet decided with the lenders what the interest rate mechanism will be in the format that will replace the Libor interest rate as aforesaid. See also Note 19.F(2) to the financial statements.

Close to the date of publication of the report, approx. 26% of the balance of loans received by the Company are at variable interest rates and approx. 74% of the balance of loans are at fixed interest rates or hedged for a period of up to approx. 9 years.

The following table presents the sensitivity of interest expenses on the balance of loans as of the reporting date, over a period of the next 12 months (close to the date of publication of the financial statements), including the effect of the Company's measures regarding interest rate risk management.

Change in the Average Libor Interest Rate in the next 12 Months in relation to the Libor Interest Rate close to the Date of Publication of the Report (0.46%)	The Average Hedging Rate and/or the Credit rate at Fixed Interest from the Projected Exposure for the next 12 Months	Extent of the Effect on Expenses in the next 12 Months After the Hedging Effect (USD millions)
50%		1.5
15%	74%	0.4
-15%		-0.4
-50%		-1.5

Exposure in respect of exchange rates

Exposure in respect of current expenses and payments

The majority of the Company's revenues and expenses are in USD, which is the Company's functional and presentation currency. The Company has expenses in NIS, mainly salary expenses and payments to local suppliers in Israel. Therefore, a change in the NIS exchange rate against the USD affects the USD value of expenses in NIS.

The following table presents the sensitivity of NIS expenses over the next 12 months (close to the date of publication of the financial statements), in relation to future market prices expected as of this date, depending on the expected level of activity and the Company's estimates (under the assumption that all other variables, including the amount of NIS expenses, will remain unchanged from expectations in relation to the reporting year).

Change in the Average Exchange Rate in the next 12 months in relation to the Exchange Rate close to the Date of Publication of the Report (NIS 3.219 per USD spot rate)	The Average Hedging Rate from the Projected Exposure for the next 12 Months	Change in the USD Value of NIS Expenses after the Hedging Effect (USD millions)
10%	14%	-33
-10%		40

Exposure in respect of balance sheet balances and future payments

The Company has financial liabilities in a non-USD currency that expose the Company to fluctuations in exchange rates, the main ones being as follows (in USD millions):

	NIS	JPY	EUR	GBP
Financial working capital, net	30.9	-	(3.3)	-
Lease liabilities	19.4	-	-	-
Loans (not hedged, see below regarding the hedging instrument)	-	58.9	-	-
Liability in respect of employee benefits	156.1	-	-	4.4
Total liabilities in USD	206.3	58.9	(3.3)	4.4
Spot exchange rate as of December 31, 2021 per USD 1	3.11	115.12	0.88	0.74
Effect of a 10% decrease/increase in the exchange rate on results	20.6	5.9	(0.3)	0.4

During 2019 and the beginning of 2020, the Company took a number of loans in the JOLCO format, in which some components are linked to the JPY in a total amount equal to approx. USD 100 million. These are components that constitute balloon loans for a period of 10 years. The Company hedged part of the exposure to the USD/JPY exchange rate through a forward transaction. As of the date of the financial statements, the fair value of this hedging transaction is approx. USD 8.1 million to the Company's debt. For more information on the Company's exposure to changes in the exchange rate of the JPY against the USD, see Note 19 to the financial statements.

C. ASPECTS OF CORPORATE RESPONSIBILITY AND CORPORATE GOVERNANCE

C1. DONATIONS AND ASSISTANCE TO THE COMMUNITY

As part of its activities, in 2021 the Company donated cash and cash equivalents in the amount of approx. USD 55 thousand. The Company maintained its status in the Maala rankings for 2019 in Platinum Plus status.

C2. DIRECTORS WITH ACCOUNTING AND FINANCIAL EXPERTISE

For information regarding the experience and education of the directors whom the Board of Directors considered as having accounting and financial expertise in the reporting year, see Regulation 26 in Part D of this periodic report.

C3. DISCLOSURE REGARDING THE INTERNAL AUDITOR IN A REPORTING CORPORATION

1. Details of the internal auditor and compliance with conditions

- 1.1. Name of the Auditor: Moshe Cohen
- 1.2. Beginning of term of office: August 1, 2021. Mr. Gil Bar served as Internal Auditor from January 1, 2021 to March 31, 2021. Ms. Sivan Sigman from the Company's Audit Team served as Acting Internal Auditor from April 1 to June 6, 2021, and Ms. Gal Sharir Ben Ari served as Acting Internal Auditor from July 4, 2021 to July 31, 2021.
- 1.3. His qualifications for the position: Accountant, BA in Economics and Accounting, Tel Aviv University. He has 40 years of experience in internal auditing, auditing of financial statements, risk management and consulting.
Serves as an internal auditor in public companies and various organizations, managing partner in the firm of Chaikin, Cohen, Rubin & Co., Certified Public Accountants.
The Internal Auditor meets all the compliance requirements set forth in Section 3(a) of the Internal Audit Law, 1992.
The Internal Auditor is in compliance with the provisions of Section 146(b) of the Companies Law, 1999 and the provisions of Section 8 of the Internal Audit Law, 1992.
- 1.4. In the reporting year, the Internal auditor does not have holdings in the Company's securities or holdings in another entity related thereto.
- 1.5. As of the date of his appointment, the Internal Auditor does not have nor did he have any business relations with the audited corporation or with an entity related thereto, other than being the Internal Auditor of subsidiaries of the Company.
- 1.6. The Internal Auditor is outsourced by the Company.

2. Manner of appointment of the Internal Auditor

- 2.1. The appointment of the Internal Auditor was approved and recommended by the Audit Committee at its meeting on July 15, 2021 and by the Company's Board of Directors at its meeting on July 28, 2021 after considering the Auditor's education, qualifications and experience in internal auditing and risk management in corporations of significant scale.
- 2.2. Obligations were imposed on the Internal auditor and authorizations were granted in accordance with the Company's internal audit procedure, the provisions of which are based on the laws of the State of Israel. In this context, the Internal Auditor was

required to propose a work plan, carry out audits in the Company in accordance with the plan and distribute written reports that include findings, conclusions and recommendations.

3. The Internal auditor's superior

The internal auditor is subordinate in the Company to the Company's Chairman of the Board of Directors and the CEO, in accordance with the Company's Articles of Association.

4. Work plan

- 4.1. The internal auditor's work plan is annual.
- 4.2. The internal auditor's work plan is determined based on the following considerations:
 - 4.2.1. The risk inherent in the issue on the Company's activities and profitability.
 - 4.2.2. The impact of the issue on the safety and security of passengers, employees and aircraft, the Company's profitability, passenger service and regulation.
 - 4.2.3. Maintenance of appropriate, applicable and efficient controls in the audited area.
 - 4.2.4. Proposals of VPs and department heads.
 - 4.2.5. Findings of previous audits and the pace of implementation of recommendations.
 - 4.2.6. The need for follow-up for a proper audit procedure.
- 4.3. The chairman of the Company's Board of Directors, the members of the Audit and Remuneration Committee and the Company CEO are involved in determining the work plan.
- 4.4. The work plan proposal is received annually by the Chairman of the Board, members of the Board of Directors' Audit and Remuneration Committee and the Company CEO. All approve the proposal in accordance with Section 149 of the Companies Law, 1999.
- 4.5. As described in this report, the outbreak of the Corona virus (COVID-19) has had a significant adverse effect on the aviation and tourism industry and on airlines in Israel and around the world, including the Company. The effects of the epidemic were reflected, among other things, in a significant decrease in the Company's activity and forced the Company to operate in a very limited format. In view of the Company's status in the reporting year and until a return to full activity, the Audit and Remuneration Committee instructed the audit to adjust the audit resources and work plan to the scope, nature of activity and the Company's status, with a focus on accompanying audit tasks and ad hoc inspections on subjects related to safety, risk management, payment to suppliers, return to a routine, the dismissal procedure, etc.
- 4.6. The Internal Auditor has the discretion to deviate from the work plan.
- 4.7. The Company's Auditor is present at the Board discussions in which significant transactions are approved.

5. Audit abroad or of investee corporations

The Company Auditor also serves as the Internal Auditor of all the active consolidated companies and therefore his work plan takes these companies into account. The Internal Auditor's work plan also includes the conducting of examinations of the Company's activities abroad.

6. Treatment of complaints regarding deficiencies in the management of the Company's business

The Company's Auditor has been appointed to coordinate and present to the Audit and Remuneration Committee the manner in which the Company's employees' complaints regarding deficiencies in the management of its business are handled. In this context,

an orderly mechanism has been established in the Company to deal with these issues. The issue is regularly examined and audited.

7. Scope of employment

- 7.1. The Internal Auditor is employed through outsourcing and is in charge of five Internal Auditors, two of whom are full-time employees of the Company. In 2021, the internal audit work plan was adjusted in view of the effects on the activity and the state of the Company and therefore, there was a significant decrease in the amount of audit resources.
- 7.2. In 2021, approx. 2,741 hours of audit work were performed in the Company and its subsidiaries in Israel, as detailed below:

Work Hours for the Company's Activity in Israel	Work Hours for the Company's Activity Abroad	Work Hours for Investee Corporations	Total
2,704	---	37	2,741

8. Performing the audit

- 8.1. The Company's Internal Auditor performs his work in accordance with the Companies Law, 1999, in accordance with the Internal Audit Law, 1992 and in accordance with generally accepted professional standards.
- 8.2. The Chairman of the Board of Directors and the Chairman of the Audit and Remuneration Committee hold a monthly discussion with the Internal Auditor regarding his work and regarding the professional standards according to which the Internal Auditor works.
- 8.3. The Audit and Remuneration Committee holds meetings at which it discusses the work of the Internal Auditor and the audit standards.
- 8.4. Prior to approving the proposed annual audit plan, the Chairman of the Board and the Audit and Remuneration Committee discuss the standards according to which the proposed work plan was formulated with the Internal auditor, after which the Audit and Remuneration Committee discusses the proposed annual audit plan and the standards according to which the proposal was formulated, and approves the plan.
- 8.5. In addition, in the reporting year, a discussion was held in the Audit and Remuneration Committee, in the presence of the Internal auditor, and without the presence of Company officers who are not members of the committee, to examine deficiencies in the Corporation's business management.

9. Access to information

The Internal Auditor has free, continuous and unmediated access to any document and information held by the Company and its subsidiaries, in Israel and abroad, or held by one of its employees, as well as access to any standard or computerized database, any automated database and any data processing systems in the Company, including financial data, as stated in Section 9 of the Internal Audit Law, 1992.

10. Report of the Internal Auditor

- 10.1. The Internal Auditor's reports are submitted in writing.
- 10.2. In 2021, the Internal Auditors completed 8 audit reports. The audit reports were submitted to the Chairman of the Board of Directors, to the members of the Board of Directors' Audit and Remuneration Committee and to the Company CEO. In addition, the Internal Auditor conducted a number of special examinations and accompanying

audits, the results of which were regularly reported to the Audit and Remuneration Committee and to the Chairman of the Board.

- 10.3. In 2021, the Audit and Remuneration Committee convened 24 times to discuss the Internal Auditor's reports, on the following dates: 11.1, 26.1, 4.2, 14.2, 4.3, 21.3, 12.4, 18.5, 3.6, 4.7, 7.7, 15.7, 26.7, 4.8, 9.8, 15.8, 24.8, 12.9, 29.9, 18.10, 14.11, 21.11, 19.12, 26.12.

11. The Board of Director's assessment of the Internal Auditor's activities

The Board of Directors believes that the scope, nature and continuity of the Internal Auditor's activities and work plan are reasonable in the circumstances, and have the capacity to fulfill the Corporation's internal audit objectives, as they relate to all significant and core activities of the Company.

12. Remuneration

- 12.1. The total remuneration for 2021 (as of August 1, 2021) for Moshe Cohen and his staff is NIS 229 thousand. It will be clarified that this amount does not include remuneration paid to the previous internal auditor and the deputies who served in the position until August 1, 2021 as specified above.
- 12.2. The Company's Board of Directors believes that the remuneration amount and its components given to the Internal Auditor do not impair the Internal Auditor's ability to exercise independent discretion in performing his duties.

C4. DISCLOSURE REGARDING THE FEES OF THE INDEPENDENT AUDITOR

THE FOLLOWING ARE THE COMPANY'S FEE EXPENSES TO THE ACCOUNTING FIRM BRIGHTMAN ALMAGOR ZOHAR & CO. IN RESPECT OF AUDITING AND TAX SERVICES AND ADDITIONAL SERVICES PROVIDED BY THEM

	Auditing Services and Audit-Related Services	Additional Services	Total
	USD thousands	USD thousands	USD thousands
2021	550	71	621
2020	394	168	562

The fees were approved by the Company's Board of Directors and are reasonable and acceptable according to the nature of the Company and the scope of its activities.

C5. REMUNERATION FOR INTERESTED PARTIES AND SENIOR OFFICIALS

Regarding the remuneration for interested parties and senior officials, see Note 22 to the financial statements regarding transactions with interested parties and related parties and Regulation 21 in the chapter "Additional Information regarding the Corporation".

Regarding the remuneration policy of the Company's officers for the years 2020-2022 (the "Remuneration Policy"), see the Revised Meeting Summons Report dated October 24, 2019 (Ref: 2019-01-090309) which is included herein by way of reference and the amendment to the remuneration policy as it appears in the Revised Meeting Summons Report, which was published on August 23, 2020 (Ref: 2020-01-082948).

As part of the remuneration policy, it was determined that part of the annual bonus would be paid subject to a long-term deferred target being met. In view of the cross-organizational agreement signed between the Company and the New Histadrut General Workers' Union, which is in effect until December 31, 2025, under which the Company undertook, among other things, that the Company's officers will not be given profit-based salary increases or new salary increases and new grants and/or bonuses, the Audit and Remuneration Committee and the Company's Board of Directors determined, on November 21, 2021 and November 23, 2021, respectively, that it is irrelevant to determine a new determining period and a new Company target as required by the remuneration policy and accordingly decided not to determine a new determining period and Company target for a deferred grant.

C6. INTERNAL ENFORCEMENT PLANS

Internal enforcement plan regarding securities law and corporate law

In 2011, the Company's Board of Directors, following the approval by the Corporate Governance Committee, approved the main points of the internal enforcement plan regarding securities law and corporate law (the "Internal Enforcement Plan").

In accordance with the recommendation of the Corporate Governance Committee, the Company's Board of Directors appointed the Company's Legal Adviser as the Supervisor of Internal Enforcement in this area (the "Supervisor").

The internal enforcement plan expresses the Company's recognition of the importance of compliance with the law by the Company's employees, managers, members of its Board of Directors and relevant service providers and coordinates the Company's policy regarding the prevention and treatment of violations, including policies for assessing the damage of violations of the law and preventing their recurrence.

The purpose of the Internal Enforcement Plan is to assimilate and enforce norms of law enforcement, ethical principles and other rules of conduct among the Company, its officers and employees, thereby ensuring the compliance of the Company and its individuals with the provisions of securities law.

The enforcement plan includes measures for the internal identification of potential violations and failures, whose function is, among other things, to identify and correct failures, streamline reporting processes, identify and deal with conflict of interest cases, prevent leakage of inside information outside the Company and prevent prohibited influence on the trading in the Company's shares. It should be clarified that an effective internal enforcement plan may constitute a tool in the hands of the CEO and the Board of Directors as part of the performance of their supervisory duty and may also be a credit to the Company in the event of any violation of securities law.

The Internal Enforcement Plan adopted by the Company includes an outline for the operation of the Company's internal enforcement system and key procedures, including: the Board of Directors' work procedures; the procedure for defining roles and authorities of the Audit and Remuneration Committee; the procedure for transactions with related parties; the conflict of interest procedure for directors; the procedure for remuneration of officers; reporting procedure (non-financial); inside information procedure; the procedure for providing information to the media and the capital market, procedure for considering enforcement considerations when promoting employees and managers, procedure for considering enforcement considerations in a remuneration plan, and the procedure for training members of the Board of Directors.

In the Enforcement Supervisor's Report, the Supervisor will provide the members of the Board of Directors with a description of the actions taken during the reporting period in the implementation and assimilation of the enforcement plan, a review of compliance events and measures taken to deal with such incidents and prevent the recurrence of similar cases in the future, as well as a file of updates regarding legislative amendments, Securities Authority guidelines and significant rulings handed down in legal proceedings regarding securities law and corporate law. In April 2021, the work plan for 2021 was approved. It should be noted that in the context of the Corona crisis, the work plan was adjusted for the scope of the Company's activities.

Internal enforcement plan regarding competition law

In 2014, the Company's Board of Directors approved an Internal Enforcement Plan regarding competition law, which includes an outline for the operation of the Company's internal enforcement system and key procedures in the Company's areas of activity.

In accordance with the recommendation of the Corporate Governance Committee, the Company's Board of Directors appointed the Company's Legal Adviser as the Supervisor of Internal Enforcement in the Company in this area. The implementation and adoption of an effective enforcement plan are intended to contribute to an increase in awareness, among employees and managers, of the requirements of the Economic Competition Law and the Competition Authority's Enforcement Policy and accordingly, to a reduction in exposure to enforcement proceedings and lawsuits against the Company, its employees and managers. In addition, Section 48(a) of the Economic Competition Law, 1988 was amended in the framework of Amendment 21 to the Law, which determined an obligation on an officer in a corporation "to supervise and do everything possible to prevent an offense under this law by the corporation or by one of its employees". A violation of this obligation establishes criminal liability for officers carrying a criminal sanction of up to one year in prison. The novelty in this provision is that criminal liability exists for officers even if no corporation offense has been committed under competition law. According to the amendment, non-compliance with the supervision obligation in itself constitutes the criminal offense. An internal enforcement plan, carried out systematically and effectively by the corporation, may assist officers in fulfilling this obligation. It should be noted that Section 48(b) presumes that the officer's obligation to prevent violations of the provisions of the law has been breached where an offense has been committed by the corporation, unless the officer has proven that he has done all that is possible to fulfill his obligation. The Internal Enforcement Plan will assist the officer even in these situations, as long as he was not involved in committing the offense and did not know of its existence.

In April 2021, the work plan for 2021 was approved in accordance with the Internal Enforcement Plan regarding competition law. It should be noted that in the context of the Corona crisis, the work plan was adjusted for the scope of the Company's activities.

Internal enforcement plan regarding the prohibition on giving or receiving bribes and the prohibition of corruption

In 2018, the Company's Board of Directors approved an internal enforcement plan regarding the prohibition on the giving or receiving of bribes and the prohibition of corruption and appointed the Company's VP of Human Resources and Administration as the Supervisor of Enforcement in this area. The enforcement plan reflects the great importance that the Company places on strict compliance with the provisions of the law regarding bribery and corruption offenses.

D. DISCLOSURE PROVISIONS IN CONNECTION WITH THE CORPORATION'S FINANCIAL REPORTING

D1. DISCLOSURE REGARDING CRITICAL ACCOUNTING ESTIMATES

The implementation of accounting principles by management when preparing the financial statements sometimes involves assumptions, valuations and various estimates that affect the amounts of assets and liabilities and the business results reported in the financial statements. Some of the assumptions, valuations and estimates are critical to the financial position or results of operations reflected in the Group's financial statements, due to the materiality of the issue, the complexity of the calculations or the feasibility of the materialization of issues that are uncertain. For details of significant accounting estimates used by the Company, see Note 2.C to the financial statements.

D2. DISCLOSURE REGARDING VALUATIONS –

In 2021, the Company assessed the value in use of its aircraft fleet, on the dates determined below.

For the appraisal as of September 30, 2021, see the quarterly report for September 30, 2021 which was published on November 24, 2021 (Ref: 2021-01-170448), which is included in this report by way of reference.

For the valuation as of March 31, 2021, see the quarterly report for March 31, 2021 which was published on May 20, 2021 (Ref: 2021-01-087495), which is included in this report by way of reference.

D3. ISSUES TO WHICH THE COMPANY'S AUDITORS DRAW ATTENTION IN THEIR CONCLUSION REGARDING THE FINANCIAL STATEMENTS

1. Regarding the significant doubts regarding the Company's continued existence as a going concern, see Note 1 to the annual financial statements.
2. For information regarding the exposure from class actions against the Company and the Company's exposure to these class actions, see Note 16 to the financial statements.

E. ADDITIONAL INFORMATION

DISCLOSURE REGARDING CHANGES IN THE ECONOMIC ENVIRONMENT, MARKET RISKS AND SPECIAL EVENTS

1. The international aviation market is affected by the security situation, political situation, special events, such as the outbreak of epidemics and natural disasters around the world in general and in specific regions in particular, as well as by the economic situation in Israel and around the world. For information regarding the outbreak of the Corona pandemic, the global economic and aviation crisis and their implications for oil prices and interest rates, see Chapter A to this report.

The following are the changes that occurred in the jet fuel prices and in the Libor interest rate from the end of the year until close to the date of publication of the financial statements as of December 31, 2021:

2. As of the reporting date, the market price of the jet fuel (before fees and supplier margins), weighted according to the markets in which the Company purchases the jet fuel, was approx. 207 cents per gallon, while as of close to the date of approval of the report, this price is approx. 284 cents per gallon, an increase of approx. 37%. The sharp changes in price have a significant impact on the Company's financial results.
3. The Company implements hedge accounting and designates hedging transactions as hedging instruments. Regarding the accounting policy on this issue, see Note 19 to the annual financial statements.
4. The framework agreements applicable to hedging transactions stipulate, among other things, the conditions under which the parties will be required to transfer collateral against the hedging transactions. With some of the hedging entities, there is no need to transfer collateral at all, and for some collateral is required (in the form of an interest-bearing monetary deposit) when the negative fair value of the transactions on a particular day exceeds the threshold determined in the agreement.
5. As of the reporting date, the 3-month Libor interest rate was approx. 0.21%, while close to the date of approval of the report, the rate is approx. 0.46%. The significant decrease in the long-term interest rates due to the Corona crisis resulted in the fair value of interest rate hedging transactions carried out by the Company close to the date of publication of the report being approx. USD 1.6 million to the Company's credit. As of this date, the fair value of a USD/JPY hedging transaction is approx. USD 6.8 million to the Company's debt. In view of this, the Company was required to provide collateral against the interest rate hedging transactions and the JPY hedging transaction in a total amount of approx. USD 2.2 million. The increase and decrease of the collateral is carried out on a daily basis according to fluctuations in the fair value of the transactions with each of the hedging entities.

**Amikam Ben-Zvi – Chairman of the
Board of Directors
March 2, 2022**

Avigal Soreq - CEO

APPENDIX A TO THE REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF THE CORPORATION'S AFFAIRS

THE COMPANY'S SIGNIFICANT LOANS IN THE YEAR ENDED DECEMBER 31, 2021

Lender Characteristics	Loans for Aircraft	Loan Amount (USD thousands)	Unsettled Balance (USD thousands)	Securities	Interest	Amortization Schedule			Loan Commencement Date	Loans' Final Repayment Date
						Payment Frequency - Principal and Interest	Principal Repayment Amount (USD thousands)	Balloon Balance (USD thousands)		
US capital market - guaranteed by EXIM	737-900	188,894	65,922	4 737-900 aircraft	Fixed - 2.45%-2.623%	Quarterly	3,935	-	Nov. 26, 2013	Jun. 25, 2026
Foreign banking institutions ^(*)	787-9	135,000	86,250	787-9 aircraft	Variable Libor + margin - 1.5%-2.5%	Quarterly	3,250	-	Mar. 1, 2018	Mar. 1, 2030
Foreign banking institution and Japanese investors	787-9	145,000	109,160	787-9 aircraft	Variable Libor + margin - 1%-2%	Quarterly	2,500	52,000	Jun. 27, 2018	Jun. 30, 2028
Foreign banking institution - guaranteed by UKEF ^(*)	787-9	125,000	105,275	787-9 aircraft	Variable Libor + margin - 0%-1%	Quarterly	2,600	-	Aug. 10, 2018	August 10, 2030
Foreign banking institution and Japanese investors	787-9	149,872	127,680	787-9 aircraft	Variable Libor + margin - 0.5%-1.5%	Quarterly	2,556	50,530	Jun. 18, 2019	Aug. 30, 2029
Foreign banking institution and Japanese investors	787-8	132,894	116,435	787-8 aircraft	Variable Libor + margin - 0%-1%	Quarterly	2,293	44,873	Nov. 27, 2019	Oct. 31, 2029
Foreign banking institution and Japanese investors	787-8	126,099	110,364	787-8 aircraft	Variable Libor + margin - 0.5%-1.5%	Quarterly	2,213	40,392	Dec. 18, 2019	Dec. 18, 2029
Foreign banking institution and Japanese investors	787-8	132,650	118,097	787-8 aircraft	Variable Libor + margin - 0%-1%	Quarterly	2,305	44,615	Feb. 19, 2020	Jan. 31, 2030

* Regarding agreements with the lender for the deferral of payments, see Note 14.D.(3) to the financial statements.

Chapter C

Consolidated

Financial Statements

El Al Israel Airlines Ltd.
2021 Periodic Report

El Al Israel Airlines Ltd.

Consolidated Financial Statements for Year 2021

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**Independent Auditors' Report to the Shareholders of
El Al Israel Airlines Ltd.**

**Regarding Audit of Components of Internal Control Over Financial Reporting
In Accordance with Section 9.B.(c) of the Securities Regulations (Periodic and
Immediate Reports), 1970**

We have audited components of internal control over financial reporting of **El Al Israel Airlines Ltd.** and subsidiaries (hereinafter together: the "Company") as of December 31, 2021. Those components of internal control were determined 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 components of internal controls over financial reporting attached to periodic report as of the above date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting, based on our audit.

The components of internal control over financial reporting that were audited were determined pursuant to Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "Audit Components of Internal Control Over Financial Statements", thereto (hereinafter: "Audit Standard (Israel) 911"). These components are: (1) Enterprise-level controls, including controls over the financial closing and reporting process and general information technology controls; (2) Controls over passenger revenues from sales of flight tickets; (3) Controls over the Matmid frequent flyer club; (4) Controls over fixed assets – airplanes, engines and spare parts; (5) Controls over payroll expenses in Israel; (6) Controls over employee benefits in Israel; (7) Controls over cargo revenue. All components of internal control exclude subsidiaries (hereinafter: "the Audited Components of Control").

We conducted our audit in accordance with Audit Standard (Israel) 911. The Standard requires that we plan and perform the audit with the purpose of identifying the Audited Components of Control, and to obtain reasonable assurance as to whether those Audited Components of control were maintained effectively in all material respects. Our audit included obtaining an understanding regarding internal control over financial reporting, identification of the Audited Components of Control, evaluation of the risk that a material weakness exists in the Audited Components of Control, and examination and evaluation of the effectiveness of the planning and operation of such components of control, based on the estimated risk. Our audit regarding such Audited Components of control also included the performance of other such procedures that we considered necessary under the circumstances. Our audit only referred to the Audited Components of Control, as opposed to internal control over all of the material processes in connection with the financial reporting, and therefore our opinion refers only to the Audited Components of Control. In addition, our audit did not refer to the mutual effect between the Audited Components of Control and those that are not audited, and therefore, our opinion does not take into consideration such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of inherent limitations, internal control over financial reporting in general, and components thereof in particular, may not prevent or detect misstatements. Also, projection based on the present evaluation of effectiveness are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



In our opinion, based on our audit, the Company effectively maintained the Audited Components of Control in all material respects, as of December 31, 2021.

We also have audited, in accordance with generally accepted auditing standards in Israel, the Consolidated financial statements of the Company as of December 31, 2021 and 2020 and for each of the three years in the period ending December 31, 2021 and our report as of March 2, 2022, expressed an unqualified opinion on those Financial Statements based on our audit and the reports of other auditors, as well as drawing attention to the significant doubts regarding the continued existence of the Company as a going concern and the Company's exposure to the approval of class actions against the Company and the Company's exposure to these class actions.

Brightman Almagor Zohar & Co.

Certified Public Accountants

A Firm in the Deloitte Global Network

Tel Aviv, March 02, 2022

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Auditors' Report to the Shareholders of El Al Israel Airlines Ltd.

We have audited the accompanying consolidated statements of financial position of **El Al Israel Airlines Ltd.** (hereinafter: "the Company") as of December 31, 2021 and 2020 and the consolidated statements of income, statements of comprehensive income, statements of changes in capital deficit and statements of cash flow for each of the three years in the period ended December 31, 2021. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We did not audit the financial statements of consolidated companies whose assets included in consolidation constitute approximately 0.1% and 0.3% of total consolidated assets as of December 31, 2021 and 2020, respectively, and whose revenues included in consolidation constitute approximately 1.4%, 2.7% and 1.1% of total consolidated revenues for the years ended December 31, 2021, 2020 and 2019, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated companies as of December 31, 2021 and 2020, and the results of their operations, changes in equity and cash flows for each of the three years in the period ended on December 31, 2021 in conformity with International Financial Reporting Standards (IFRS) and the Israeli Securities Regulations (Annual Financial Statements) – 2010.

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements regarding the implications of the spread of the "Corona" Virus (COVID-19), the Company's approach to dealing with the implications as aforesaid and regarding the working capital deficit and the significant losses for the periods ended December 31, 2021 and 2020, due to which the Company has incurred a capital deficit. The Company's approach to dealing with the significant consequences of the virus include, among other things, raising capital, signing of an agreement with the State and other assistance agreements with the State and the controlling shareholder of the Company. The Company is also examining additional financing options, while carrying out other operational and financial measures.

As detailed in the above note, as of the date of approval of the financial statements, despite receiving the funding through the advance payment for the flights of aviation security system personnel and the additional assistance agreements with the State and the controlling shareholder, as detailed above, since the Company's ability to meet all its financial liabilities depends, among other things, on the existence of events that are not fully controlled by the Company and which are uncertain and necessary to enable the Company to deal with the Corona crisis, as of the date of approval of the financial statements there are significant doubts regarding the continued existence of the Company as a going concern. The financial statements did not include adjustments regarding the values of assets and their classification and regarding the values of liabilities which may be necessary if the Company is not able to continue operating as a going concern.

Also, we draw attention to Note 16.B of the financial statements regarding exposure to the approval of class actions against the Company and the Company's exposure to these class actions.

We have also audited, in accordance with Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "An Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2021, and our report dated March 2, 2022 included an unqualified opinion on the effective maintenance of those components.

Brightman Almagor Zohar & Co.

Certified Public Accountants

A Firm in the Deloitte Global Network

Tel Aviv, March 2, 2022

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El Al Israel Airlines Ltd.
Consolidated Statements of Financial Position

	Note	As of December 31	
		2021	2020
		USD thousands	USD thousands
Assets			
Current assets			
Cash and cash equivalents	3	90,526	68,251
Short-term deposits	4	20,169	25,666
Trade receivables	5	87,753	39,678
Accounts receivable and debit balances	6	21,027	26,221
Derivative financial instruments	19	250	-
Prepaid expenses	7	17,716	13,570
Inventory	8	15,297	12,271
Total current assets		252,738	185,657
Non-current assets			
Long-term deposits	4	79,183	99,530
Long-term investments	9	3,160	3,064
Right-of-use leased assets	11	816,836	892,423
Fixed assets and intangible assets	10	1,680,309	1,826,088
Total non-current assets		2,579,488	2,821,105
Total assets		2,832,226	3,006,761

The notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.
Consolidated Statements of Financial Position

	Note	As of December 31	
		2021	2020
		USD thousands	USD thousands
<u>Liabilities and equity</u>			
Current liabilities			
Loans from banking corporations and others and short-term credit	14	1,128,534	1,191,936
Loans from controlling shareholder*	14G	50,000	10,000
Current maturities of leases	11	141,161	122,306
Trade payables		105,023	129,104
Accounts payable and credit balances	12	107,944	66,577
Unearned revenue	13	288,961	260,870
Provisions	16	13,136	14,650
Derivative financial instruments	19	1,203	26,911
Employee benefit obligations	15	103,136	152,981
Total current liabilities		1,939,099	1,975,335
Non-current liabilities			
Lease liabilities	11	864,885	895,573
Bonds	14H	4,839	-
Unearned revenue	13	348,872	160,151
Long-term credit balances	12	105,105	100,316
Employee benefit obligations	15	100,480	92,012
Derivative financial instruments	19	17,725	39,230
Deferred tax liability	17	-	241
Total non-current liabilities		1,441,906	1,287,523
Total liabilities		3,381,005	3,262,858
Capital deficit			
	18		
Share capital		406,186	375,141
Premium and capital reserves		235,844	146,527
Accumulated deficit		(1,191,519)	(778,554)
Total capital deficit attributed to Company shareholders		(549,489)	(256,886)
Non-controlling interests		710	789
Total capital deficit		(548,779)	(256,097)
Total liabilities and equity		2,832,226	3,006,761

*Reclassified

Amikam Ben-Zvi – Chairman
of the Board of Directors

Avigal Soreq – CEO

Yitzhak Eliav – CFO

Financial statements date of approval: Ben Gurion Airport, March 2, 2022.

The notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.
Consolidated Statements of Profit or Loss

	Note	For the Year ended December 31		
		2021	2020	2019
		USD	USD	USD
		thousands	thousands	thousands
Operating revenue	20A	857,167	623,075	2,177,997
Operating expenses	20B	(960,477)	(800,403)	(1,833,604)
Gross profit (loss)		<u>(103,310)</u>	<u>(177,327)</u>	<u>344,392</u>
Sales expenses	20C	(88,361)	(60,709)	(213,563)
General and administrative expenses	20D	(99,838)	(101,996)	(138,839)
Other income (expenses), net	20E	(28,932)	(24,267)	12,498
		<u>(217,131)</u>	<u>(186,973)</u>	<u>(339,903)</u>
Profit (loss) from ordinary activities		<u>(320,441)</u>	<u>(364,300)</u>	<u>4,489</u>
Financing expenses	20F	(109,133)	(196,787)	(88,201)
Financing income	20G	6,404	331	5,307
Financing expenses, net		(102,728)	(196,456)	(82,894)
Company share in profits (losses) of associates and revaluation of options		-	(801)	1,843
Loss before tax		(423,169)	(561,557)	(76,563)
Tax benefit	17	10,125	30,520	16,961
Net loss for the year		<u>(413,044)</u>	<u>(531,037)</u>	<u>(59,602)</u>
Loss per ordinary share of NIS 1 PV (in USD):				
Basic and diluted loss per share*		<u>(2.44)</u>	<u>(5.92)</u>	<u>(0.96)</u>
Weighted average number of shares (in thousands) used in the calculation of loss per share:				
Basic and diluted*		<u>168,990</u>	<u>89,313</u>	<u>61,965</u>

* Adjusted retroactively as a result of the consolidation of share capital, see Note 18.A.

The notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.
Consolidated Statements of Comprehensive Income

	For the Year ended December 31		
	2021	2020	2019
	USD thousands	USD thousands	USD thousands
Loss for the year	(413,044)	(531,037)	(59,602)
Other comprehensive income (loss):			
Amounts that will not be classified in the future to profit or loss:			
Profit (loss) in respect of remeasurement of defined benefit plan, net of tax	287	2,922	(4,603)
Amounts that will be classified in the future to profit or loss:			
Exchange rate differences in respect of translation of foreign activities	3	(699)	933
Profit (loss) in respect of cash flow hedging, net of tax	34,641	(43,178)	20,931
Profit in respect of cash flow hedging - time value, net of tax	238	481	299
Other comprehensive income (loss) for the year	35,169	(40,474)	17,560
Total comprehensive loss for the year	(377,875)	(571,511)	(42,042)

The notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.
Consolidated Statements of Changes in Equity

For the Year ended December 31, 2021

	Share Capital USD thousands	Capital Reserve for Issuance of Discounted Shares USD thousands	Capital Reserve for Issuance of Options USD thousands	Capital Reserve for Cash Flow Hedging USD thousands	Capital Reserve for Cash Flow Hedging - Time Value USD thousands	Capital Reserve for Translation Differences from Foreign Activities USD thousands	Other Capital Reserves USD thousands	Balance of loss attributed to Parent Company Shareholders USD thousands	Non- Controlling Interests USD thousands	Total USD thousands
Balance as of January 1, 2021	375,141	(37,927)	-	(45,681)	(153)	280	230,007	(778,554)	789	(256,097)
Movement in the reporting period:										
Loss for the year	-	-	-	-	-	-	-	(412,965)	(79)	(413,044)
Other comprehensive income	-	-	-	34,641	238	3	287	-	-	35,169
Total comprehensive income (loss) for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,641</u>	<u>238</u>	<u>3</u>	<u>287</u>	<u>(412,965)</u>	<u>(79)</u>	<u>(377,875)</u>
Proceeds from issuance of options, net (see Note 1.B)	-	-	75,611	-	-	-	-	-	-	75,611
Exercise of option warrants for shares	31,044	(15,612)	(6,121)	-	-	-	-	-	-	9,311
Loan from controlling shareholder (see Note 22.B)	-	-	-	-	-	-	270	-	-	270
Total equity as of December 31, 2021	<u>406,186</u>	<u>(53,539)</u>	<u>69,490</u>	<u>(11,040)</u>	<u>85</u>	<u>283</u>	<u>230,565</u>	<u>(1,191,519)</u>	<u>710</u>	<u>(548,779)</u>

The notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.
Consolidated Statements of Changes in Equity (continued)

For the Year ended December 31, 2020

	Share Capital USD thousands	Share Premium USD thousands	Capital Reserve for Issuance of Discounted Shares * USD thousands	Capital Reserve for Cash Flow Hedging USD thousands	Capital Reserve for Cash Flow Hedging - Time Value USD thousands	Capital Reserve for Translation Differences from Foreign Activities USD thousands	Other Capital Reserves* USD thousands	Balance of loss attributed to Parent Company Shareholders USD thousands	Non- Controlling Interests USD thousands	Total USD thousands
Balance as of January 1, 2020	155,012	35,554	-	(2,502)	(633)	979	226,970	(247,643)	915	168,652
Movement in the reporting period:										
Loss for the year	-	-	-	-	-	-	-	(530,911)	(126)	(531,037)
Other comprehensive income (loss)	-	-	-	(43,178)	481	(699)	2,922	-	-	(40,474)
Total comprehensive income (loss) for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(43,178)</u>	<u>481</u>	<u>(699)</u>	<u>2,922</u>	<u>(530,911)</u>	<u>(126)</u>	<u>(571,511)</u>
Issuance of shares, less costs, net of tax (see Note 1.B)	220,130	(35,554)	(37,927)	-	-	-	-	-	-	146,649
Loan from controlling shareholder (see Note 22.A)	-	-	-	-	-	-	116	-	-	116
Total equity as of December 31, 2020	<u>375,141</u>	<u>-</u>	<u>202,938</u>	<u>(45,681)</u>	<u>(153)</u>	<u>280</u>	<u>230,007</u>	<u>(778,554)</u>	<u>789</u>	<u>(256,097)</u>

*Reclassified

The notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.
Consolidated Statements of Changes in Equity (continued)

For the Year ended December 31, 2019

	Share Capital USD thousands	Share Premium USD thousands	Other Capital Reserves USD thousands	Capital Reserve for Cash Flow Hedging USD thousands	Capital Reserve for Cash Flow Hedging - Time Value USD thousands	Capital Reserve for Translation Differences from Foreign Activities USD thousands	Capital Reserve for Remeasurements of Net Liability for Defined Benefit USD thousands	Balance of loss attributed to Company Shareholders USD thousands	Non- Controlling Interests USD thousands	Total USD thousands
Balance as of January 1, 2019	155,012	35,554	240,750	(23,433)	(932)	46	(9,177)	(169,220)	838	229,438
Cumulative effect of implementation of International Financial Reporting Standard IFRS 16	-	-	-	-	-	-	-	(18,763)	-	(18,763)
Balance as of January 1, 2020 - after the cumulative effect of implementation of International Financial Reporting Standard IFRS 16	155,012	35,554	240,750	(23,433)	(932)	46	(9,177)	(187,983)	838	210,675
Movement in the reporting period:										
Profit (loss) for the year	-	-	-	-	-	-	-	(59,660)	77	(60,787)
Other comprehensive income (loss)	-	-	-	20,931	299	933	(4,603)	-	-	17,560
Total comprehensive income (loss) for the year	-	-	-	20,931	299	933	(4,603)	(59,660)	77	(43,227)
Total equity as of December 31, 2019	<u>155,012</u>	<u>35,554</u>	<u>240,750</u>	<u>(2,502)</u>	<u>(633)</u>	<u>979</u>	<u>(13,780)</u>	<u>(247,643)</u>	<u>915</u>	<u>168,652</u>

The notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.
Consolidated Statements of Cash Flows

	For the Year ended December 31		
	2021	2020	2019
	USD thousands	USD thousands	USD thousands
<u>Cash flows from (for) operating activities</u>			
Loss for the period	(413,044)	(531,037)	(59,601)
Adjustments required to present cash flows from operating activities - Appendix A	412,486	392,217	353,452
Cash provided by (used in) operating activities	(557)	(138,820)	293,851
<u>Cash flows from (for) investing activities</u>			
Fixed asset purchases (including payment on account of aircraft and general engine overhauls)	(15,231)	(115,251)	(429,234)
Proceeds from realization of fixed assets, including from sale and leaseback transaction attributed to the residual value, see Note 10.D	2,825	23,123	23,127
Investment in intangible assets	(5,320)	(3,603)	(12,571)
Change in deposits	25,668	(16,691)	(14,947)
Proceeds from sale of Maman	-	15,432	-
Cash provided by (used in) investing activities	7,942	(96,990)	(433,625)
<u>Cash flows from financing activities</u>			
Proceeds from issuance of shares, net, see Note 1.B	-	146,331	-
Liability component for the issuance of bonds to the State of Israel, see Note 14.H	4,789	-	-
Payment in respect of loan raising expenses	(817)	(10,716)	(21,474)
Consideration from sale and leaseback transaction not attributed to the residual value, see Note 10.D	3,013	-	-
Receipt of loans from banking corporations	44,475	132,650	563,722
Receipt of loan from controlling shareholder, see Note 14.G	50,000	10,000	-
Repayment of loan from controlling shareholder	(10,000)	-	-
Repayment of loans from banking corporations	(107,003)	(157,268)	(280,666)
Decrease in short-term credit, net	(456)	(2,356)	(5,299)
Repayment of lease liabilities	(53,471)	(45,440)	(81,868)
Exercise of options for shares	9,311	-	-
Proceeds from issuance of option warrants, see Note 1.B	75,330	-	-
Cash provided by financing activities	15,170	73,201	174,415
Impact of changes in exchange rates on cash balances held in foreign currency	(280)	1,600	1,522
Increase (decrease) in cash and cash equivalents	22,275	(161,009)	36,163
Cash and cash equivalents at beginning of the year	68,251	229,260	193,097
Cash and cash equivalents at end of the year	90,526	68,251	229,260

The notes constitute an integral part of the Consolidated Financial Statements.

El Al Israel Airlines Ltd.
Consolidated Statements of Cash Flows (continued)

	For the Year ended December 31		
	2021	2020	2019
	USD	USD	USD
	thousands	thousands	thousands
Appendix A – Adjustments required to present cash flows			
from operating activities:			
Income and expenses not related to cash flows:			
Depreciation (including disposal of accessories, obsolete components and consumption of consumable equipment)	121,918	128,033	153,685
Depreciation in respect of right-of-use leased assets	107,661	113,399	97,659
Depreciation of value of aircraft to fair value, less realization costs, see Note 10.C	43,466	-	-
Grants received from credit card companies	-	-	59,394
State financing by advance payment of flights of aviation security system personnel, see Note 1.B	207,885	-	-
Deferred taxes, net	(10,548)	(32,115)	(17,529)
Increase (decrease) in liabilities in respect of employee benefits and provisions	(6,829)	98,164	20,226
Net capital gain from realization of assets, see Note 10.D	(1,216)	(9,178)	(11,791)
Changes in fair value of financial instruments in respect of ineffective jet fuel hedging transactions	(6,969)	6,831	-
Financing expenses in respect of the advance payment for flights of aviation security system personnel, see Note 1.B	14,779	-	-
Other non-cash financing expenses	20,374	35,194	8,984
Advance deposit for employee dismissal program, see Note 1.B	(35,931)	-	-
Other changes	(4,203)	1,497	(4,412)
Changes in asset and liability items:			
Decrease (increase) in trade receivables and other receivables	(44,351)	109,144	(22,253)
Decrease (increase) in prepaid expenses	(4,093)	2,065	7,917
Decrease (increase) in inventory	(3,026)	3,700	244
Increase (decrease) in trade payables and other payables	19,421	(38,946)	17,192
Increase (decrease) in unearned revenue	(5,852)	(25,569)	44,136
	<u>412,486</u>	<u>392,217</u>	<u>353,452</u>
Appendix B – Interest payments and receipts, taxes paid and dividends received and classified under cash flows from operating activities (1):			
Interest payments (2)	<u>52,033</u>	<u>55,877</u>	<u>77,105</u>
Interest receipts	<u>172</u>	<u>730</u>	<u>2,712</u>
Tax payments - advances for excess expenses	<u>130</u>	<u>35</u>	<u>436</u>
Dividends received	<u>-</u>	<u>-</u>	<u>579</u>
(1) The Company classifies cash flows in respect of interest and dividends received as well as cash flows in respect of interest paid as cash flows that were used in or provided by operating activities.			
(2) Including conceptual interest on lease liabilities in accordance with International Financial Reporting Standard IFRS 16 - "Leases".			

The 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. The Company operates mainly in the air transport of passengers and cargo and operates scheduled flights, charter flights (marketed by its subsidiary, San D'or) and also transports cargo. The Group also engages in ancillary activities to air transport, such as: duty-free product sales, manufacture and supply of food to airlines (including to the Company itself) through subsidiaries, provision of security services, provision of routine maintenance and comprehensive maintenance services for its aircraft and for aircraft of other companies at Ben Gurion Airport, management of travel agencies abroad, as well as development and entrepreneurship activities through a subsidiary. In addition, the Company has collaborations with financial institutions in a credit card venture through the Company's frequent flyer club.

B. The Company's approach to dealing with the effects of the Corona pandemic

Implications of the pandemic on the Company's activities, results and financial position:

At the end of 2019, an outbreak of the Corona virus (COVID-19) began worldwide, including in Asian countries, Europe and the United States. The outbreak of the virus was declared a global health emergency at the end of January 2020, and on March 11, 2020 the outbreak was classified as a global pandemic.

Since the beginning of the event, the Ministry of Health in Israel has issued various announcements regarding restrictions that apply to outgoing and returning passengers from different countries around the world of varying types and intensities depending on the development of the pandemic and the morbidity status in Israel and around the world. The Ministry of Health's announcements, as well as instructions received from various entities in Israel and around the world, caused a significant decrease in demand and the cancellation of flights, more so in 2020 and early 2021, at times until the Company's scheduled passenger flights ceased.

Accordingly, the Company constantly makes operational and commercial changes and adjustments in its activity and in the route network, taking into account, among other things, maintaining air contact to and from Israel in relation to transportation of passengers and cargo and the provision of solutions to the Company's customers if possible.

The following is the development of the pandemic and the restrictions throughout the period:

- Initially, at the end of January 2020, the Company temporarily suspended its flights to Beijing (China) and then also adjusted its operations on routes to Hong Kong and Bangkok, and to various destinations in Europe and North America until there was a complete cessation of its scheduled passenger flights from the end of March to the end September 2020.
- In October 2020, began phasing in passenger flights to Greece and gradually resumed operations to the US, England, France and other destinations and also began operating routes to Dubai and the Seychelles. At the end of December 2020, with the Israeli government's decision regarding isolation at a hotel for travelers returning from all destinations, the Company made adjustments in the flight schedule to the Dubai and Seychelles destinations.
- With the entry into effect of the third closure, in January 2021, the Company continued its activities until the date of closing Ben Gurion Airport to passenger traffic on January 26, 2021. With the lifting of the closure on Ben Gurion Airport on February 21, 2021, the Company gradually began to resume operations.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

- During July 2021, the spread of the Delta variant of the Corona virus began, which gradually resulted in the return of restrictions on aviation and a decrease in demand, which was reflected, among other things, in a decrease in airline ticket sales in the third quarter. However, at the end of August 2021, with the government's approval of the outline to ease the restrictions imposed due to the pandemic, and in particular, the restrictions related to the departure of Israelis to destinations abroad, the recovery in demand and sales of airline tickets by the company has resumed.
- During the month of November 2021, the spread of the Omicron variant of the Corona virus began in European countries. The spread of the Omicron variant began first in Europe and then in Israel which led to the government's closure of Israel's skies, which affected demand and sales. With the government's approval to reopen the skies, there was an increase in the Company's sales. This trend continued and even strengthened subsequent to the date of the statements of financial position.

The following are details regarding the scope of the Company's activity compared to 2019 by quarter in the years 2020-2021:

	Q4/21	Q3/21	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20
Rate of revenues compared to the corresponding period in 2019	51%	39%	38%	27%	22%	6%	26%	75%
Scope of activity compared to the corresponding period in 2019 (in terms of ASK (seat-km))	46%	38%	31%	10%	13%	0%	2%	83%

The crisis, as aforesaid, had significant financial consequences for the Company, as follows:

- In 2021 and 2020, the Company recognized cumulative losses of approx. USD 944 million, which resulted in a capital deficit of approx. USD 549 million as of December 31, 2021. The working capital deficit as of that date was approx. USD 1,686 million, most of which is due to the continued classification of long-term loans from banking corporations as short-term, in the amount of approx. USD 936 million, as current liabilities, according to the loan agreements signed by the Company, according to which a significant deterioration in the Company's business is a reason for lenders to demand immediate repayment of the loan. In view of the above, according to accounting standart, the Company is required to classify the full balance of the debt as a current liability, even though it has complied with the payments as required, except for the deferral of payments with the agreement of several banks (see Note 14 below) and such a demand has not been received from any of the lenders. For an update regarding the waiver of compliance for the LTV ratio debt covenant, see Note 14.E below.
- Due to the cancellations of flights at the beginning of the pandemic, as described above, the Company was required to refund substantial amounts to customers. Shortly after the Company's issuance of shares in September 2020, the Company started making refunds to passengers for canceled flights and accordingly, the Company issued a new refund policy to passengers according to which, travel vouchers are offered for future use on the Company's flights instead of cash refunds. It should be noted that the monetary value inherent in most travel vouchers is 25% higher than the liability balance in the books¹.

¹ According to International Financial Reporting Standard IFRS 15 - "Revenue from Contracts with Customers", the amount of revenue to be recognized at the time of the future flight must be equal to the original transaction amount ('transaction price' in the language of the standard). Therefore, the Company

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

Upon the entry into effect of the agreement with the State of Israel as detailed in Note 1.B.(5) and the receipt of the amounts under the agreement, the Company has accordingly accelerated the pace of handling the refunds to the Company's customers, and as of December 31, 2021, the Company has paid the vast majority of the refunds requested by the customers.

Operational and financial measures taken by the Company:

In view of this, and in view of the significant decrease in the volume of activity as detailed above, the Company applied the following main measures:

- As part of the streamlining plan, the Company terminated the employment of approx. 1,900 employees, thereby remaining with a smaller workforce. In addition, in the fourth quarter of 2021, the Company signed an additional voluntary retirement plan with the Histadrut that will take place in 2022.
- During 2020, the Company raised the amount of approx. USD 147.7 million in an issuance of shares.
- During 2020, the Company released compensation fund surpluses in the amount of approx. USD 97 million.
- During 2021, the Company raised approx. USD 77 million in consideration for the allotment of options.
- The Company has signed aid agreements and loans from the State and the controlling shareholder for a cumulative amount of approx. USD 360 million.
- The Company deferred lease payments and loans during the period in the amount of approx. USD 96 million.

In accordance with the aforesaid, the following are details regarding the above measures and additional measures taken by the Company during this period:

- (1) The Company signed streamlining agreements with the workers' representatives and the Histadrut, in which it completed the process of dismissal of its employees, which ended the employment of approx. 1,900 employees. Upon signing the financing agreement with the State as detailed in Note 1.B.(5) and in view of the signing of a special collective agreement with the Company's employees as described below, the streamlining agreements entered into effect in May 2021. It should be noted that on April 6, 2021, the Company and the Histadrut signed a special collective agreement in relation to all streamlining agreements. In accordance with the special collective agreement, all the streamlining agreements entered into effect simultaneously with the agreement with the state, without requiring further proceedings between the parties.

In addition, as part of another streamlining measure, in October 2021 and as of the date of publication of the financial statements, the Company's Board of Directors approved the collective agreements it signed with the Histadrut, the Maintenance Committee and the Administrative Committee regarding the arrangement of another plan for providing increased compensation or a monthly annuity to the Company's permanent employees who will choose to retire voluntarily, according to the conditions set forth in the agreements and similar to the terms in the agreement signed in April 2021 as stated above. See also Note 20.E below.

did not recognize the increase in the balance of deferred revenue in respect of the granting of the increased compensation vouchers. Regarding the accounting policy regarding the recognition of revenue, see Note 13.A to the annual financial statements.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

- (2) With the onset of the Corona crisis, from March 2020, the Company placed the vast majority of the employees of the Company and its subsidiaries on unpaid leave, which was extended until January 2, 2022. In addition, with the outbreak of the crisis, the Company reduced the scope of executive positions, reduced salaries of Company's officers, stopped the training of new employees and fired new employees who were in the training process.
- (3) Lease payments were deferred and cash outflows in respect of some of the leases were adjusted to the scope of activity. For details, see Note 11 below. Loan payments were also deferred, as detailed in Note 14 below.
- (4) The Company released the surpluses in the main compensation funds during 2020, which were opened as part of the Company's privatization process.
- (5) Regarding loans taken by the Company from financial institutions in the total amount of approx. USD 45 million, see Note 14 below.
- (6) From the beginning of the crisis, as described above, the Company made adjustments to the aircraft fleet according to the scope of operations, among other things by canceling a lease agreement for two 737-800 aircraft that were expected to join the fleet, retiring from service two 777 aircraft, converting 777 service aircraft to cargo aircraft and placing a number of aircraft in deep storage that are expected to return to operation during 2022.

Concurrently with the financial measures described above, the Company took additional measures involving capital raising and assistance agreements with the State and the controlling shareholder as detailed below.

Additional measures involving capital raising and assistance agreements with the State:

(1) Publication of the shelf prospectus

On August 31, 2020, the Company issued a shelf prospectus, which states that there may be a public offering of ordinary shares, non-convertible bonds (including by expanding an existing series of the Company's bonds, as will be from time to time), convertible bonds for the Company's shares (including by way of expanding an existing series of convertible bonds for the Company's shares, as will be from time to time), options exercisable for the Company's shares, options exercisable for non-convertible bonds and convertible bonds for the Company's shares and commercial securities (the "**Shelf Prospectus**").

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

(2) Issuance of shares

Accordingly, on September 15, 2020, the Company issued a shelf offer report based on the shelf prospectus. In the shelf offer report, the Company offered the public up to 753,353,000 of the Company's ordinary shares at a minimal price of NIS 0.671 per share. As part of the tender that took place in connection with the offer of the shares, the Company allocated a total of 753,353,000 of the Company's ordinary shares of NIS 1 PV for a consideration (gross) in the amount of NIS 505.5 million, which at the time of the issue amounted to approx. USD 147.7 million. After the issue, the number of shares issued by the Company amounts to 1,249,072,135 shares of NIS 1 PV.

The issue costs amounted to approx. USD 1.4 million and were deducted from the issue proceeds that were recorded to the Company's equity (after tax attribution, this amounted to 1.1 million). The total amount credited to the Company's equity is approx. USD 146.6 million. Subsequent to the issue of the shares, there was a change in the Company's controlling shareholders. For details, see Note 22 below.

(3) Issuance of options

On February 14, 2021, the Company issued an additional shelf offer report based on the shelf prospectus. In the additional shelf offer report, the Company offered the public between 750,000,000 and 1,250,000,000 new options (Series 2), traded on the stock exchange, registered by name, exercisable for the Company's shares, at a minimal price of NIS 0.20 per option. In the tender that took place in connection with the offer of the options, the Company allocated a total of 1,250,000,000 options for a consideration (gross) in the amount of NIS 250 million, which at the time of the issue amounted to approx. USD 77 million and were recorded (net of issue costs) to the Company's equity in the first quarter of 2021. Regarding the terms of the options, their potential effect on the number of shares, the earnings per share and the exercise of the options during the reporting period, see Note 18 below.

(4) Capital consolidation

In October 2021, the Company consolidated the ordinary shares in a ratio of 1 to 8, followed by a reduction in the par value of the ordinary shares to NIS 1 PV so that the number of shares prior to the consolidation was 1,350,422,665 shares, and after the consolidation the number of shares is 168,802,833 shares. Following the capital consolidation, the Company also retrospectively adjusted the data regarding the basic loss per share.

(5) Alternative scheme – State funding through the advance payment for the flights of aviation security system personnel

On March 18, 2021, the Company and the subsidiary San D'or signed an agreement with the State of Israel ("the Agreement") in the amount of USD 210 million, which was subject to a number of conditions that existed gradually until May 9, 2021. At that time the agreement entered into effect, and close to that date, the funds were received by the Company. The following are the main points of the agreement:

- (a)** Of the stated amount, a total of NIS 118 million was paid to the trustee appointed by the Company for the purpose of meeting the Company's obligation regarding severance pay and pension payments due to the Company's dismissed employees in accordance with the collective agreements signed with the employees.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

- (b) The Company and San D'or undertake to fly the aviation security system personnel and bear all the costs involved, in order to enable the aviation security system personnel to reach the required destinations and dates, in accordance with General Security Service guidelines and in order to provide a complete solution to the needs of the aviation security system. The purchase of airline tickets for employees of the security system personnel is under the discretion of the State only.
- (c) The Company has undertaken to comply, among other things, with the provisions detailed below, non-compliance with which will be considered a fundamental breach of the agreement: (1) Execution of an issue of shares, options or a mix of the two by July 31, 2021 in the amount of at least USD 105 million, in which the Company's controlling shareholder undertook to order shares, options or a mix of the two in the amount of at least USD 43 million (regarding the updated undertaking of the controlling shareholder and regarding the postponement of the issue date, see Note 1.B(6) below); (2) Implementation of a streamlining plan to reduce the Company's expenses in the years 2021 to 2025 (inclusive) compared to its expenses in 2019; (3) Not to distribute dividends, including a buyback of shares, until the end of 2025; (4) Any dividend distribution, including the buyback of shares, in the years 2026 to 2028 (inclusive) may not exceed 30% of the total net profit in all the aforesaid years together as of the date of distribution; (5) Until the end of 2028, not to carry out a transaction with an interested party as defined in the Securities Law, 1968, with the exception of the State, which exceeds USD 1 million or a transaction with a controlling shareholder in any amount, without prior approval by the Ministry of Finance; (6) The total annual salary cost of the Company's management and the Chairman of the Board will be reduced in 2021 by a total rate of 15% compared to the salary paid in 2019, and the reduction will also be in effect in 2022 to 2024 (inclusive) and no wage increases will be given in its place; (7) The benefit of flight tickets on the basis of a guaranteed place will be reduced for the Company's officers and members of the Company's Board of Directors and their family members, starting on May 1, 2021 and until the end of 2025 at the earliest.
- (d) In the event that the Company violates the agreement with a fundamental breach, and after giving prior notice in which it did not correct the breach, the agreement will be canceled and the amounts received by the Company will become an immediately repayable loan in accordance with the amounts determined in the agreement and year of the breach. In addition, even in the event that the Company enters into insolvency proceedings, the amount specified in the agreement, according to the year in which the breach occurred, will be immediately repayable and will constitute a Company debt to the state.

See Note 13.A below for the Company's accounting policy regarding the financing agreement.

In view of the changes in the business environment and the effects of the Delta variant of the Corona virus, the Company applied to the Ministry of Finance requesting a postponement in the date of the issue and negotiated with the Ministry of Finance regarding the terms of the postponement and requesting assistance from the State in respect of the negative consequences of the government decisions related to the aviation sector to and from Israel, as detailed in Note 1.B(6) below.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

(6) Agreement for additional assistance from the State and the controlling shareholder (the "November Agreement")

On November 22, 2021, the Company signed an agreement for additional assistance (the "November Agreement") with the Government of Israel on behalf of the State of Israel ("the State") and with Kanfei Nesharim Aviation Ltd. ("the controlling shareholder"), and as a derivative thereof, the Company signed an agreement with the controlling shareholder for the provision of loans by the controlling shareholder to the Company, as detailed below:

(a) The controlling shareholder undertakes to provide the Company with shareholder loans, subordinated and deferred to any other obligation of the Company, without interest and without collateral, in a total amount not less than USD 63 million ("controlling shareholder loans"), as follows:

- (1) By November 25, 2021, the amount of USD 25 million (the "first shareholder loan");
- (2) By November 30, 2021, the amount of USD 18 million (the "second shareholder loan");
- (3) By November 30, 2021, the amount of USD 7 million (the "third shareholder loan");
- (4) By February 6, 2022, and following the approval of the shareholders' meeting, the amount of USD 13 million (the "fourth shareholder loan").

The controlling shareholder will be entitled at any time, and subject to any law, to convert the controlling shareholder loans, in whole or in part, into capital.

(b) Regarding the Company's undertaking to carry out an issue, as detailed in Note 1.B(5) above, the Company undertakes to raise capital by issuing shares or options in an amount of not less than USD 105 million (before payment of commissions and expenses related to the issue at market conditions) (the "Issue Amount") and no later than September 19, 2022, in one or in several issuances; for the avoidance of doubt, the Company's obligation will be completed only after the amount of the issue (less commissions and expenses related to the issue acceptable under market conditions) has been received by the Company; the first shareholder loan and the second shareholder loan, in the amount of USD 43 million, after they have been actually provided, will be considered as the carrying out of the controlling shareholder's obligation regarding the order put forward in the offering and as part of the issue amount. It should be clarified that the amounts of the third shareholder loan, the fourth shareholder loan and the optional shareholder loan (as defined below), as well as the exercise of options issued until October 31, 2021, will not be considered as part of the issue amount.

(c) To the extent that the Company seeks to issue shares or options to a third party against a debt and not as part of a public offer, where the debt to the third party exceeds USD 1 million, with the exception of an issue to the controlling shareholder, it may do so, and regarding the issue and the obligation to raise the issue amount, it will be considered as part of the issue amount only up to a cumulative amount of USD 30 million.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

(d) Only after the Company raises an amount exceeding USD 62 million in the offering will it be entitled to repay the first shareholder loan and the second shareholder loan, so any amount raised in excess of the above amount can be used to repay the first shareholder loan and the second shareholder loan.

For the avoidance of doubt, the controlling shareholder loans, or any part thereof, even if they have become capital, will not be taken into account as part of the USD 62 million. To the extent that the amount raised in the issue is raised from third parties, and not from the controlling shareholder, and exceeds the above amount, the repayment of the first shareholder loan and the second shareholder loan will be subject to the provisions of Section (k) below. Without derogating from the Company's undertaking, as stated in Section (b) above, the Company may also raise capital in issues after September 19, 2022 ("the additional issues"), and amounts raised from the controlling shareholder in the additional issues may be used by the Company to repay the first shareholder loan and the second shareholder loan.

It should be clarified that the third shareholder loan, the fourth shareholder loan and the optional shareholder loan (as defined below), will not be considered as part of the amounts of the additional issues.

(e) The Company will be entitled to repay the third shareholder loan and the fourth shareholder loan starting December 31, 2025 provided that all bonds (as defined below) to the State have been repaid or converted into shares previously.

(f) After the company has been provided with the first shareholder loan, the second shareholder loan and the third shareholder loan, the State will transfer USD 7 million. Also, after and subject to the approval of the meeting on February 6, 2022 (the "Meeting's Approval"), the State will transfer an additional amount of USD 23 million to the Company against an allocation of bonds by the Company, which are convertible into the Company's shares, for a period of 3 years ("the Bonds"). At the end of the 3 years from the date of the provision of the amounts detailed above by the State, the Company may repay the bonds or convert them (in whole or in part) into the Company's shares, according to the average share price in the 30 days prior to the end of that period, while deducting 7.5% from the above average rate.

(g) After and subject to the approval of the meeting, the controlling shareholder will transfer a loan of an additional USD 5 million and also, once the Company has been provided the first shareholder loan and the second shareholder loan and until June 30, 2022 ("the Option Period"), the Company will have the option to require the controlling shareholder to provide the Company with another shareholder loan, in the option period, in an additional amount of up to USD 5 million, which will be considered a controlling shareholder loan. The repayment date will be from December 31, 2025, provided that all the bonds have previously been repaid or converted into the Company's shares. The controlling shareholder will be entitled at any time, and subject to any law, to convert the shareholder loans, in whole or in part, into capital.

(h) The total amounts that the State will transfer to the Company according to the November Agreement will not exceed USD 30 million.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

(i) The State's total holding in the Company's shares will not exceed 24%, and the Company will not be entitled to convert the bonds into shares in such a way that the State's total holding rate exceeds the above rate, and any amount that cannot be converted, as stated in this section, will be repaid no later than three years from its grant date. However, to the extent that on the date of conversion of the State's bonds into shares, that is: at the end of the relevant 3 year period for the State's bonds, as stated in this agreement and in the 2022 Agreement below, the conversion will result in the State's holdings exceeding 24% of the Company's share capital, the State's bonds will be converted in an amount that will result in the State holding only 24% of the Company's share capital, and the deadline for repayment of the balance of the bonds not converted as aforesaid will be postponed for another year (the "extension period") provided that: (a) the extension period will not apply to bonds issued to the State before January 16, 2022; and (b) in any case where the State has sold its holdings in the Company, in whole or in part, during the extension period, the Company will convert, close to that date, additional bonds of the State into shares in an amount that will increase the State's holdings to the amount prior to that sale, or bonds will be repaid on that date in an amount equal to the value of the shares sold by the State at the time of the sale, subject to the relevant conversion rate as stated in Section (f) above.

To the extent that there is an impediment to allotting shares to the State for any reason at the end of the original period or during the extension period, the bonds will be repaid to the State on the date specified therein, or at the time the impediment became clear, to the extent the impediment occurred during the extension period.

(j) In any case, the conversion price of any of the State's bonds (by virtue of the November 2021 Agreement and the 2022 Agreement below), will not be less than the amount of NIS 0.30 per share. In the event that the conversion price is less than that amount, the Company will perform a capital consolidation such that as a result the conversion price will exceed that amount.

(k) It should be noted that the agreement provides an early repayment mechanism in case the Company actually raises, in or after the issue, an amount exceeding the issue amount ("additional capital"), by issuing shares or options, and without taking into account the amounts raised under the third shareholder loan, the fourth shareholder loan and the optional shareholder loan, so that a third of the additional capital will be used to repay the third shareholder loan, the fourth shareholder loan and the optional shareholder loan and a third will be used to repay the bonds.

To the extent that any amount of the bonds is converted into Company shares, it will not be possible to make early repayment to the controlling shareholder and to the State, and if the full amount of the bonds is repaid to the State, half of the additional capital (and not one third) will be used to repay the third shareholder loan, the fourth shareholder loan and the optional shareholder loan.

(l) The Company will apply to the banks and lessors to defer the 2022 principal payments.

(m) In accordance with the terms of the agreement, the Company's Board of Directors has made the following resolutions: (a) To raise capital, by January 31, 2022 (It should be noted that this date has been extended under the 2022 Agreement until February 28, 2022), in an amount of not less than USD 100 million (net) against the Frequent Flyer Club, and insofar as the amount raised is by loan, the Company will not start repayment of the loan before January 1, 2023 (see below); (b) The Company intends to sell a significant share of the Frequent Flyer Club. On February 28, 2022, the Ministry of Finance on behalf of the State of Israel approved the postponement of the recruitment date to March 14, 2022, when until that date, the company's board of directors is required to approve the recruitment, when the state and the company intending to sign an amendment to the 2022 agreement (2022 agreement is described below), according to which the period for the completion of the recruitment will be extended.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

(n) If the Company has not complied with one of the clauses of the agreement, this will be considered a fundamental violation and any amount provided by the State in accordance with the agreement will be repaid immediately with the addition of CPI-linkage differences and annual interest at a rate of 5%.

As stated above, at the same time as the signing of the agreement, the Company signed an additional agreement with the controlling shareholder that regulates the terms of the controlling shareholder loans in accordance with the agreement, and determines their repayment date as follows:

1. The Company will repay the third shareholder loan and the fourth shareholder loan in one payment, on December 31, 2025, provided that it will not be repaid in such a way as to violate the provisions and terms of the agreement, including that all the bonds that were allocated to the State under the agreement have been previously repaid or converted into Company shares.
2. The Company will repay the first shareholder loan and the second shareholder loan in one payment or in several payments at the earliest possible date(s) in accordance with the provisions of the agreement, including the provisions of Section (d) above.
3. If the optional shareholder loan has been provided, the Company will repay it in one payment on December 31, 2025, provided that it will not be repaid in such a way as to violate the provisions and terms of the agreement, including that all the bonds that were allocated to the State under the agreement have been previously repaid or converted into Company shares.
4. If the aforesaid repayment violates the provisions and terms of the agreement, but it is possible to repay some of the controlling shareholder loans and the optional shareholder loan without such a violation, the Company will repay the maximum amount from the controlling shareholder loans and optional shareholder loan, on the aforesaid date, that can be repaid without violating the provisions and terms of the agreement. The part that is not repaid as aforesaid and any part thereof, will be repaid by the Company at the earliest date that can be repaid without violating the provisions and terms of the agreement.
5. The controlling shareholder is entitled, but is not obligated, to determine later repayment dates than those stated above, in a written notice to the Company.
6. Repayment of the controlling shareholder loans and the optional shareholder loan, or any part thereof, subject to the conversion of the controlling shareholder loans and the optional shareholder loan or any part thereof to capital, as stated in the agreement, according to which the controlling shareholder may at any time, and subject to any law, convert the controlling shareholder loans and the optional shareholder loan or any part thereof to capital.
7. The Company will be entitled to make early repayment of the controlling shareholder loans and the optional shareholder loan, according to its sole discretion, provided that this does not violate the provisions and terms of the agreement or the provisions of the law. The Company will not bear any "early repayment fee" or similar fee or any cost in respect of the early repayment of the controlling shareholder loans and the optional shareholder loan.

It should be clarified that the November Agreement embodies the agreements between the State and the Company that were discussed in the negotiations between the parties.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

See Notes 14.G and 14.H for the Company's accounting policy regarding the loans received from the controlling shareholder and the bonds to the State.

In addition to the above, on January 23, 2022, subsequent to the date of the statements of financial position, the Company signed an agreement for additional assistance (the "2022 Agreement") with the Government of Israel on behalf of the State of Israel ("the State") and with Kanfei Nesharim Aviation Ltd. (the "controlling shareholder"), and derived therefrom, the Company signed an additional agreement with the controlling shareholder for the provision of loans by the controlling shareholder to the Company (the "Shareholder Loans Agreement") due to the effects of the Omicron strain of the Corona virus. The following are the details of the agreement:

(7) Agreement for additional assistance from the State and the controlling shareholder (the "2022 Agreement")

The 2022 Agreement includes, among other things, amendments to the assistance agreement signed between the Company, the State and the controlling shareholder on November 22, 2021 (the "November Agreement"). As reported on November 22, 2021, the provision of additional assistance by the State and the controlling shareholder through loans and advance payments for fuel consumption. The main terms of the 2022 Agreement are as follows:

(a) Amendment of the November Agreement.

(b) Provision of additional assistance by the State and the controlling shareholder by granting additional loans.

(c) The 2022 Agreement stipulates that shortly after the approval of the meeting to be held on February 6, 2022, the Company will be provided loans in the amount of an additional USD 5 million by the controlling shareholder or a third party. In the event that the amount, in whole or in part, is provided by a third party, it will be provided without interest and without collateral, and will be repaid only after all the bonds to the State have been repaid or converted into shares previously, or alternatively it will be converted into Company shares.

Accordingly, the Company signed an agreement with Tnufa for Growth, founded by the Histadrut (the "NPO"), to provide a loan to the Company in the amount of NIS 10 million, until June 30, 2026, against an allotment of a convertible bond for the Company's shares, as the NPO decides, with the other terms of the bond to be allotted to the NPO being similar to the terms of the State's bonds. In the event that the Company repays the controlling shareholder's loans under the 2022 Agreement and the November Agreement or any other loan granted to the Company by the controlling shareholder, on the same date the Company will also repay the loan provided by the NPO.

The balance of the amount (approx. USD 2 million) will be provided by the controlling shareholder as a shareholder loan, on terms similar to the terms of the controlling shareholders' loans provided under the November Agreement, including with regard to the repayment dates and the right of conversion to capital (subject to any law).

(d) Immediately after the provision of the loans referred to in Section (c) above and receipt of the approval of the General Meeting, the State will transfer to the Company an amount of USD 20 million against the allocation of a USD bond convertible into the Company's shares, for a period of 3 years. Repayment or conversion (in whole or in part) of the aforementioned bond will be according to the mechanism set forth in Sections (i) and (j) of the November Agreement above.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

(e) Up to 10 business days after the approval of the General Meeting, the Company will have the option to demand that the controlling shareholder provide the Company with an additional shareholder loan in the amount of up to USD 5 million (the "second option amount"). The second option amount actually exercised will be on terms similar to the terms of the controlling shareholders' loans provided in the November Agreement above, including with regard to repayment dates and the right of conversion to capital (subject to any law).

Shortly after receiving the second option amount, the State will transfer to the Company the same amount against the allocation of a convertible bond for the Company's shares. Repayment or conversion (in whole or in part) of the aforementioned bond will be according to the mechanism set forth in Sections (i) and (j) of the November Agreement above.

(f) Advancing the payment and extending the period for which the payment will be made for the additional fuel consumption and for Level A routine maintenance activity, as detailed below.

(g) Shortly after receipt of the amounts specified in Sections (c) of this Agreement and (a)(4) of the November Agreement above, the State will transfer to the Company an amount of USD 12 million, which constitutes a payment for additional fuel consumption and Level A routine maintenance, in connection with a civil aviation protection system installed on the Company's aircraft under an agreement between the State and the Company dated September 30, 2014 (the "System Agreement"), all in the period from January 1, 2022 to December 31, 2041 (the "20-year period").

Notwithstanding the provisions of Sections (c) of this Agreement and (a)(4) of the November Agreement above, the controlling shareholder will provide the amounts mentioned in the above sections before the approval of the General Meeting if the Company notifies the State and the controlling shareholder in writing that the Company requires the above amounts immediately. It should be clarified that if such notice is given, the State will provide the Company with the aforesaid amount (USD 12 million) shortly after the provision of the amounts specified in Sections (c) of this Agreement and (a)(4) of the November Agreement above.

(h) Upon receipt of the above amount, the Company, San D'or International Airways Ltd. (a subsidiary of the Company) and the controlling shareholder will not have any claim against the State for the additional fuel consumption and for Level A routine maintenance activity during the 20 years.

(i) In the event that the Company fails to comply with the provisions of the System Agreement due to an act or omission under its control (the "violation"), the Company will reimburse the State for expenses incurred by the State in accordance with the 2022 Agreement for the additional fuel consumption and the Level A routine maintenance activities, in the amounts detailed in the appendix to the 2022 Agreement, according to the fiscal year during which the violation occurred.

(j) In the event that during the 20-year period the Company enters into insolvency proceedings, the amount specified in the appendix to the 2022 Agreement will be payable immediately, according to the calendar year in which the Company entered into such proceedings, and which relates to the period after the insolvency, and the Company will have a debt to the State.

(k) In the 2022 Agreement, the State clarified that it has no obligation to bear any ownership in the installation of the system, including the cost of additional fuel consumption and the Level A routine maintenance activities, regarding the period beyond the 20-year period, and the Company stated that it is aware that there is no obligation or commitment on the part of the State to bear any ownership for the period after December 31, 2041.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

At the meetings of the Company's Audit Committee and Board of Directors held on January 16, 2022 and January 17, 2022, respectively, the Company's Audit Committee and Board of Directors approved the 2022 Agreement and receipt of the shareholder loans, and determined that they are transactions for the good of the Company, all in accordance with Regulation 1(2) of the Companies Regulations (Easements in Transactions with Interested Parties), 2000 (the "Easement Regulations"). Summary of the reasoning of the Audit Committee and the Board of Directors:

(a) The Company is required to approve the 2022 Agreement and to receive shareholder loans from the controlling shareholder in order to ensure its continued existence.

(b) Shareholder loans are intended for the Company's ongoing operations, through which the Company may repay loans and liabilities to third parties.

(c) The 2022 Agreement benefits the Company when, taking into account the Company's financial position, it was not able to receive assistance and/or loans on similar or preferential terms from financial or other entities, and therefore circumstances exist for which there is no reason for a competitive procedure.

(d) The provision of shareholder loans on behalf of the controlling shareholder, as specified in the 2022 Agreement and the Shareholder Loan Agreement, are provided without consideration on the part of the Company.

(e) The shareholder loans on behalf of the controlling shareholder, as specified in the 2022 Agreement and the Shareholder Loan Agreement, do not bear any interest or linkage and are not guaranteed with any collateral, and accordingly they comply with the principles outlined by the Securities Authority staff in Resolution 101-7 dated June 2005 (Loans from the Controlling shareholder to a Company as a Qualifying Transaction under Regulation 1(2) of the Easement Regulations).

(f) The 2022 Agreement and the Shareholder Loan Agreement are for the benefit of the Company and for no other reason than to credit the Company.

(g) There is no division in the shareholder loans with regard to the provisions of Section 275(d)(1) of the Companies Law, 1999.

To summarize, the following is a list of the loan and financing amounts received and expected to be received in accordance with the November 2021 Agreement and the 2022 Agreement as detailed above, divided by the relevant parties (See below regarding the deferral of some of the amounts):

Date of Receipt	Financing Entity	Amount in USD thousands
November 2021	Controlling shareholder	50,000
November 2021	State of Israel	7,000
February 22	Controlling shareholder	25,000
February 22	State of Israel	55,000
February 22	Histadrut	3,000
June 2022	Controlling shareholder	5,000
June 2022	State of Israel	5,000
		150,000

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

B. The Company's approach to dealing with the effects of the Corona pandemic (continued)

Subsequent to the date of publication of the financial statements, a total of approx. USD 70 million was received from the controlling shareholder, a total of approx. USD 57 million from the State and approx. USD 3 million from the Histadrut, as specified and according to the dates indicated in the table above. It should be noted that as the amendment to the agreement with the state will be signed, then in accordance with the oral agreements between the company and the state, the second option will be extended for a total of up to \$ 5 million, from the state and the controlling shareholder, until June 30, 2022. In addition, in November 2021, the State advanced its participation in security expenses in the amount of approx. USD 20 million, and subsequent to the date of the statement of financial position, it transferred an additional USD 20 million. For details, see Note 20.B below.

(8) Additional financial measures:

- The Company intends to carry out additional operational and financial measures to reduce the Company's expenses and improve its cash flow in order to provide additional financing sources to bridge the expected cash flow gaps during 2022. In that context, the Company is working to leverage and unlock the value of the frequent flyer club by raising debt against the club's assets, including from the credit card and the "Flycard" brand. Later, the Company plans the addition of a strategic partner for the development of the club's business, among other things by raising capital. The Company intends to repay the debt against the club's assets, or part of it, from the capital raising. For this purpose and in accordance with the decision of the Board of Directors dated January 17, 2022, the frequent flyer club activity, including its assets, was sold to a wholly owned subsidiary established by the Company (against the allotment of shares), all in accordance with the needs of the club and company activities, including club business development and investor recruitment.
- As stated in Note 1.B above, the Company intends to raise capital in the amount of up to USD 105 million, some of which may be used to repay the shareholder loans through the issuance of shares or options by September 2022.
- The Company is also negotiating with lenders and creditors to reschedule payments in respect of past debt, to postpone and to receive waivers for current payments planned in 2022 to later periods. See also Note 14 below.

(9) Summary

Despite receiving the funding through the advance payment for the flights of aviation security system personnel and the additional assistance agreements with the State and the controlling shareholder, as detailed above, since the Company's ability to meet all its financial liabilities depends, among other things, on the existence of events that are not fully controlled by the Company and which are uncertain and necessary to enable the Company to deal with the Corona crisis, as of the date of approval of the financial statements there are significant doubts regarding the continued existence of the Company as a going concern. The financial statements did not include adjustments regarding the values of assets and their classification and regarding the values of liabilities which may be necessary if the Company is not able to continue operating as a going concern.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

C. Operation “Guardian of the Walls”:

During May 2021, there was a security escalation, which led to Operation “Guardian of the Walls”. The operation led to certain disruptions in traffic at Ben Gurion Airport when some foreign companies announced the cancellation of flights to Israel, while the Company continued to operate throughout and constitute an air bridge to and from Israel, even for those passengers in foreign companies whose flights were canceled.

Note 2 - Preparation Basis for the Financial Statements

A. Statement regarding the implementation of International Financial Reporting Standards (IFRS) and the Securities Regulations:

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter - "IFRS") and interpretations thereof published by the International Accounting Standards Board (IASB), and in accordance with the Securities Regulations (Annual Financial Statements), 2010 (hereinafter - "Financial Statements Regulations").

In accordance with Regulation 4 of the Periodic and Immediate Reports Regulations, the Company has not attached separate financial information to these financial statements according to Regulation 9.c. of these regulations, in view of the negligible effect that the financial statements of the investee companies have on the Company's consolidated financial statements. The criteria used by the Company in this determination are the amount of data of the subsidiaries out of total assets, income, loss and cash flow of the Company from operating activities (less than 5%).

B. The Company's functional and presentation currency:

The financial statements of the Company and of each of its subsidiaries are prepared in the currency of the main economic environment in which they operate (hereinafter - the “functional currency”), while the Group's consolidated financial statements are presented in USD – the Company's functional currency, since most of the Company's income and expenses are denominated in that currency, including the purchase and financing of its aircraft.

Transactions made in currencies other than the Company's functional currency are recognized according to the exchange rates in effect on the dates of the transactions. At the end of each reporting period, monetary items denominated in other currencies are translated according to the exchange rates in effect on that date. Exchange rate differences are recognized in the statement of profit or loss in the period in which they arose (except for exchange rate differences in respect of investee companies - see Note 21.D).

C. Significant accounting considerations and critical estimates:

(1) General:

In the implementation of the Company's accounting policies, the Company's management is required, in certain cases, to exercise extensive accounting judgment regarding estimates and assumptions that have been used in determining the values of assets and liabilities in the financial statements. The estimates and the related assumptions are based on past experience and other factors considered relevant. Actual results may differ from these estimates. The following is a list of the critical estimates and discretion exercised by the Company's management in these financial statements.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 2 - Preparation Basis for the Financial Statements (continued)

C. Significant accounting considerations and critical estimates: (continued)

(2) Government grants:

- As detailed in Note 13.A below, to the best of the Company's discretion, the consideration received in the State Financing Agreement through the advance payment for the flights of the Aviation Security System personnel contains both a sale agreement and a financing agreement. Therefore, the Company estimates that the agreement embodies a significant financing component according to International Financial Reporting Standard IFRS 15. This component is calculated using the discount rate that would have been reflected, according to the Company's estimation, in a separate financing transaction on the date of the agreement. The difference between the consideration received and the present value of the conceptual cash flows (detailed in the aforesaid note) that was calculated using the discount rate was recognized by the Company as a government grant in accordance with International Accounting Standard IAS 20. For further information including the manner of determining the discount rate, see Note 13.A below.
- In addition and as detailed in Note 14.H, at the Company's best discretion, the difference between the fair value of the consideration received from the State for interest-bearing bonds, as detailed in Note 1.B.(6), according to the discount rate that would be reflected in a separate financing transaction at the time of the agreement between the consideration received is recognized as a government grant.

(3) Provisions and contingent liabilities:

For the purpose of examining the exposures arising from lawsuits filed against the Company, as well as regarding the determination of the likelihood that they will materialize to its detriment, the Company's management relies on the opinions of legal and professional advisers. After the Company's advisers have formed their legal position and the Company's prospects regarding the subject of the lawsuit, whether the Company will have to bear the consequences or be able to dismiss it, the Company's management estimates the amount of the provision to be recognized in the financial statements, if any, based on the Company management's best estimate of the amount that will be required to settle the obligation. The results of the proceedings may differ from the assessments of the Company's management and significantly affect the financial position and results of the Company's operations. For details of the provisions and contingent liabilities as of December 31, 2021, see Note 16.

(4) Employee benefits:

The present value of the Company's obligation to pay retirement and severance pay for some of the employees in Israel, vacation pay to all employees in Israel, redemption of sick days for some of the employees in Israel and other benefits, including pension plans for some of the Company's local employees in the United States and England, is based on a large number of data, determined based on an actuarial valuation, using actuarial assumptions. Changes in the actuarial assumptions may affect the estimated value of the Company's obligations to pay such benefits. For details of the actuarial assumptions and for their sensitivity analysis, see Note 15.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 2 - Preparation Basis for the Financial Statements (continued)

C. Significant accounting considerations and critical estimates: (continued)

(5) Useful life and residual values of aircraft and engines:

Company aircraft and their engines are depreciated throughout their useful life and considering their residual value. As stated in Note 10 below, the estimated useful lives of the Company's aircraft and engines, as well as their residual values, are determined in accordance with management plans and assessments regarding the use of the aircraft fleet and according to market estimates of equipment sale amounts when retired from service, including based on aircraft price lists published from time to time.

Actual changes in the remaining useful life and/or in the residual value may lead to substantial changes in the Company's depreciation rates and depreciation expenses. For further information, including regarding the change in the depreciation estimate from 2022, see Note 10.B.(1).

(6) Impairment test:

As stated in Note 10 below and in view of the business environment in the reporting year, the Company was required to assess the value in use of its operating assets several times. Having done so, the Company estimates the future cash flows expected to result from continued use of the Company's assets and their realization at the end of the period of use, and discounts them to their present value, using a discount rate that reflects the operational risk of aircraft fleets based on the Company's weighted discount rate.

For the main assumptions used in the value in use assessments, see Note 10.C. Substantial changes in these assumptions, or in some of them, may affect the value in use and result in impairment.

(7) Plans for the Frequent Flyer Club:

For the purpose of calculating the balance of deferred revenue in respect of the frequent flyer points, accrued as of the date of the statements of financial position and not yet utilized, the Company bases the calculation on the sales prices of the various products to which the same points can be converted, taking into account the number of points to be converted in order to purchase those products, and the Company's experience regarding the point utilization forecast.

Changes in management's assessment regarding the point value and the rate of non-realization of the points may affect the timing of the revenue recognition.

(8) Non-recognition of a tax asset on losses carried forward:

The Company recognized deferred tax assets for the losses carried forward only up to the amount of the liability for deferred taxes, due to the uncertainty prevailing in the business environment in which the Company operates.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 3 - Cash and cash equivalents

Cash and cash equivalents include deposits that can be withdrawn immediately, as well as fixed-term deposits for which there is no limitation and/or designated purpose for their use, and whose maturity date, at the time of their investment, does not exceed three months. Deposits whose maturity, on the date of investment, exceeds three months and does not exceed one year are classified under the 'short-term deposits' item.

	As of December 31	
	2021	2020
	USD	USD
	thousands	thousands
Cash and bank balances	90,223	68,250
Cash equivalents	303	1
Total cash and cash equivalents	90,526	68,251

Note 4 - Deposits

Composition:

	As of December 31	
	2021	2020
	USD	USD
	thousands	thousands
Deposits provided by the Company as collateral for aircraft leasing transactions	20,069	13,584
Designated deposits	101	101
Deposit provided by the Company as collateral for derivatives	-	11,981
Total short-term deposits	20,169	25,666
Long-term bank deposits (1)	7,660	18,590
Deposits with service providers	4,735	5,097
Deposits provided by the Company as collateral for aircraft leasing transactions	66,789	75,842
Total long-term deposits	79,183	99,529

(1) Long-term bank deposits mainly include deposits invested by the Company as collateral in respect of derivative financial instruments recognized as a liability.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 5 - Trade Receivables

A. Accounting policy:

The Company's customers are examined at the end of each reporting period in order to identify the existence of signs of impairment. Impairment occurs when there is objective evidence that as a result of one or more events, the chances of collecting the customer's debt were adversely affected. This evidence may include, among other things, significant financial difficulties of the debtor or non-compliance with current payments.

In the event of impairment, the Company recognizes a loss and a provision for doubtful debt. The provision is calculated specifically (the Company does not make a general provision for materiality reasons). When the Company ultimately estimates that the debts are not collectible, the debt is recognized as bad debt.

B. Composition:

	As of December 31	
	2021	2020
	USD	USD
	thousands	thousands
Open accounts	44,839	45,391
Expected receipts for credit card sales (see (4) below)	46,179	-
	91,018	45,391
Less - Provision for doubtful debts (most are over 90 days)	(3,266)	(5,713)
Total trade receivables	87,753	39,678

- (1) In passenger flight activity, which routinely constitutes the majority of the Company's balance of customers, the credit period of the Company's sales ranges from one week to one month from the date of ticketing. It should be noted that the revenue from those sales is recognized during the actual flight, which usually occurs after the actual payment is collected.
- (2) The average debt period of customer debts whose due date has passed, as of December 31, 2021, is approx. 92 days (as of December 31, 2020: approx. 113 days).
- (3) As of December 31, 2021, the Company's customers include several types of customers in Israel and around the world: IATA agents (International Air Transport Association - hereinafter - "IATA"), who pay through IATA's bank clearing system and business customers. Private customers purchase tickets by cash payment or credit card. The credit quality of IATA agents is determined according to the parameters of the IATA bank clearing system (BSP for passenger agents and CASS for cargo agents abroad). These entities require bank guarantees in respect of these agents according to IATA principles. In addition, the Company has insurance for the credit risk of IATA agents in Israel. This insurance does not cover all of the Company's exposure in respect of the credit risk.
- (4) The receipts balance as of December 31, 2021 includes a balance created in 2021 in respect of the clearer of credit cards in the United States in the amount of approx. 35 million, which is held as collateral by the clearer.

When determining the likelihood of repayment of customer debts, the Group examines changes in the quality of the customer's credit from the date of granting the credit until the reporting date. The total credit risk is limited, in view of the large customer base divided into different industries and geographical areas, and in view of the relatively short credit period.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 5 - Trade Receivables (continued)

C. Customer debt aging:

	As of December 31	
	2021	2020
	USD thousands	USD thousands
Not in arrears	71,224	27,138
In arrears up to 90 days	9,147	3,797
In arrears over 90 days	10,648	14,456
Total	91,019	45,391
Less - Provision for doubtful debts (most are over 90 days)	(3,266)	(5,713)
Total at the end of the year	87,753	39,678

D. Movement in the provision for doubtful debts:

	As of December 31	
	2021	2020
	USD thousands	USD thousands
Balance at the beginning of the year	5,713	5,092
Loss (reversal of loss) from impairment in respect of customers, net	(198)	1,175
Amounts deleted	(2,249)	(554)
Balance of provision for doubtful debts	3,266	5,713

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 6 - Accounts Receivable and debit balances

	<u>As of December 31</u>	
	<u>2021</u>	<u>2020</u>
	<u>USD</u>	<u>USD</u>
	<u>thousands</u>	<u>thousands</u>
Government institutions	5,794	4,876
Receivables for the restoration of leased engines	3,253	10,776
Advance payments to suppliers	5,343	763
Other receivables	6,637	9,807
Total receivables and debit balances	<u>21,027</u>	<u>26,222</u>

Note 7 - Prepaid Expenses

Advance expenses include, but are not limited to, commissions to agents and credit card commissions attributed to unrecognized revenue, which will be recognized as sales expenses in the statements of profit and loss while recognizing revenue from the flights for which the commissions were paid.

	<u>As of December 31</u>	
	<u>2021</u>	<u>2020</u>
	<u>USD</u>	<u>USD</u>
	<u>thousands</u>	<u>thousands</u>
Commissions to agents	5,687	2,075
Credit card commissions	1,625	1,519
Other	10,404	9,976
Total prepaid expenses	<u>17,716</u>	<u>13,570</u>

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 8 - Inventory

	As of December 31	
	2021	2020
	USD	USD
	thousands	thousands
Jet fuel for consumption	7,685	2,764
Materials and foodstuffs	4,750	6,095
Chemicals	1,628	1,632
Duty free products	1,232	1,780
Total inventory	15,297	12,271

Note 9 - Long-Term Investments

A. Composition:

	As of December 31	
	2021	2020
	USD	USD
	thousands	thousands
Associates	4	4
Investments at fair value (see Section B below)	3,156	3,060
Total	3,160	3,064

B. Investments at fair value:

Fair value investments include investment ventures, which operate in cooperation with the subsidiary, Cockpit Innovation Ltd. (for more information, see Note 21A(6)), and in return, Cockpit holds equity instruments in those ventures (mainly start-up companies).

C. Phantom-type option in ICC

The Company was granted a "phantom" option, which gives the Company economic rights in ICC (equivalent to 8.75% of the increase in ICC's value), or in Diners (equivalent to 35% of the increase in Diners' value). The option can only be exercised in the event of a sale or issue of either of them, in accordance with the terms set forth in the agreement in this regard and will be settled in cash. In view of the fact that there is significant uncertainty regarding the reasonableness of the existence of such conditions, the value of the option was estimated at a non-material amount.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 10 - Fixed Assets and Intangible Assets

A. Composition of fixed assets:

The Company's fixed assets mainly include the Company's aircraft and its flight equipment (such as engines, including reserves, spare parts, accessories, etc.) as detailed below. In addition to these, the fixed assets include the Company's buildings and facilities, transportation equipment, furniture and computer equipment. Fixed asset items are presented in the statements of financial position according to their cost, less accumulated depreciation.

(1) Composition of the depreciated cost in the statements of financial position:

	<u>As of December 31</u>	
	<u>2021</u>	<u>2020</u>
	<u>USD</u>	<u>USD</u>
	<u>thousands</u>	<u>thousands</u>
Depreciated cost:		
Aircraft and flight equipment	1,610,968	1,746,469
Other fixed assets and intangible assets (see Note 10.E)	69,340	79,620
	<u>1,680,308</u>	<u>1,826,089</u>

(2) Composition of aircraft fleet as of December 31, 2021:

Model	Average Seats	Average Age	Ownership	Leased	Total
777-200ER	279	18.6	6	-	6
737-900ER	175	7.0	8	-	8
737-800	169	17.3	6	10	16
787-9	275	3.3	4	8	12
787-8	238	2.0	3	-	3
Total	218	10.9	27	18	45

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 10 - Fixed Assets and Intangible Assets (continued)

A. Composition of fixed assets (continued)

(3) Balances of cost, accumulated depreciation and depreciated cost of Company aircraft and flight equipment:

	Passenger Aircraft	Engines	Payments on account of Aircraft and Engines	Accessories and Spare Parts	Total
	USD	USD	USD	USD	USD
	thousands	thousands	thousands	thousands	thousands
Cost:					
As of January 1, 2020	2,049,489	288,338	96,719	241,655	2,676,201
Classification	44,282	1,500	(45,782)	-	-
Additions	74,115	16,761	12,470	15,226	118,572
Disposals	-	(39,741)	-	(64,952)	(104,693)
As of December 31, 2020	<u>2,167,886</u>	<u>266,858</u>	<u>63,407</u>	<u>191,929</u>	<u>2,690,080</u>
Classification	(1,211)	-	(1,948)	3,159	-
Additions	(422)	3,087	831	20,174	23,670
Disposals	-	(9,043)	-	(26,312)	(35,354)
As of December 31, 2021	<u>2,166,253</u>	<u>260,903</u>	<u>62,291</u>	<u>188,951</u>	<u>2,678,396</u>
Accumulated depreciation:					
As of January 1, 2020	694,744	89,280	-	145,023	929,047
Depreciation for the year	83,193	2,792	-	19,570	105,556
Disposals	-	(32,384)	-	(58,606)	(90,991)
As of December 31, 2020	<u>777,938</u>	<u>59,688</u>	<u>-</u>	<u>105,987</u>	<u>943,612</u>
Depreciation for the year	80,139	3,292	-	19,028	102,460
Disposals	-	(5,216)	-	(16,893)	(22,109)
As of December 31, 2021	<u>858,077</u>	<u>57,765</u>	<u>-</u>	<u>108,120</u>	<u>1,023,962</u>
Depreciation to net realizable value in respect of aircraft retired from service	<u>(40,591)</u>	<u>(2,875)</u>	<u>-</u>	<u>-</u>	<u>(43,466)</u>
Depreciated cost:					
As of December 31, 2021	<u>1,267,585</u>	<u>200,262</u>	<u>62,291</u>	<u>80,830</u>	<u>1,610,968</u>
As of December 31, 2020	<u>1,389,948</u>	<u>207,170</u>	<u>63,408</u>	<u>85,944</u>	<u>1,746,469</u>

* Due to the persistence of traffic restrictions and the relative reduction in the volume of demand, the receipt of a Boeing 787-8 aircraft, which was supposed to be received by the Company in March 2020, was postponed to March 2023. At present, repayment of the loan in the amount of approx. USD 31 million, which the Company took from a financial institution for the advance payment in respect of the aircraft, was postponed to December 2022. The Company continues to examine long-term financing alternatives for the aircraft's financing.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 10 - Fixed Assets and Intangible Assets (continued)

A. Composition of fixed assets (continued)

In general, the Company's aircraft and its engines are encumbered in favor of the lending entities under a fixed and specific senior lien, and in some cases the aircraft were purchased through loans that were taken by dedicated companies (Special Purpose Companies - "SPC"), which were established as part of the financing transactions and therefore the legal format is that the aircraft are owned by the designated companies, which lease the aircraft to the Company for the duration of the financing periods and at the end of the lease periods, the aircraft are transferred to the Company (either with or without additional consideration), including potential and ancillary rights such as insurance. The Company may not transfer or record an additional lien on the assets without the prior consent of the lending entities. See also Note 14(E) below.

B. Accounting policy for the depreciation of the Company's aircraft and flight equipment:

(1) Depreciation of the Company's aircraft and their engines:

The cost of the aircraft includes all the costs required to purchase the aircraft, including absorption costs. Additional costs to the Company after receiving the aircraft will be recorded to the cost of the Company's aircraft if they constitute an asset that will be used by the Company for several periods (a significant addition or upgrade in the aircraft's performance or form). Ongoing maintenance costs are recognized in the statements of profit or loss at the time they are incurred.

The Company's aircraft are depreciated while separating into components with a significant cost, which are mainly the fuselage and a general overhaul cost component of an aircraft engine, known as "potential". The fuselage is depreciated in a straight line over its expected useful life while taking into account the expected residual value at the end of the period, depending on the residual value of the aircraft expected on the date when, according to the management's assessment, the Company's use of that aircraft is expected to end. The engine potential is depreciated according to the engine hours actually performed compared to the engine hours expected until the date of the next overhaul (or until the date of the engine's retirement from service, as the case may be).

In cases where the Company has entered into engine maintenance agreements of an insurance nature, the Company recognizes expenses (which are not depreciation) as defined in the insurance agreements, and the general overhaul cost is at the insurer's expense. In these cases, the potential component is not depreciated.

The Company's aircraft are depreciated over a period of between 20 and 29 years. The residual values, depreciation methods and useful life are reviewed by the Company's management on an ongoing basis. Changes in these estimates are treated prospectively.

(2) Accessories and spare parts:

The cost of spare parts and consumables is determined using the moving weighted average method, and is depreciated according to the rate of use (issues). In addition, the Company makes an ongoing provision for impairment of those parts in accordance with the Company's policy in this regard.

Rotables and consumables are recognized according to their actual cost, and are depreciated accordingly over the life of the fleet to which they are associated. Accessories and spare parts that are not attributed to a particular fleet are depreciated over the average expected life of all the Company's aircraft fleets.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 10 - Fixed Assets and Intangible Assets (continued)

C. Impairment test and depreciation to fair value less realization costs for aircraft expected to be retired from service

Accounting policy:

At the end of each reporting period, the Company examines whether there are any indications of impairment of the Company's aircraft fleet, which as a whole constitutes a single cash-generating unit. The Company's management believes that the positive cash flows stemming from the Company's aircraft fleets are not independent of the cash flows of other fleets. This is because the Company's aircraft fleets fly, in many cases, to the same destinations to which planes fly from other fleets and are therefore mostly interchangeable and in any case, all form part of the Company's network of routes that the Company manages as a whole.

The recoverable amount is the fair value of the fleet or its value in use, whichever is higher. When assessing the value in use, the Company estimates the future cash flows expected to result from the use of the aircraft (expected contribution) and their realization at the end of the period of use, and discounts them to their present value, using a discount rate that reflects the operational risk of aircraft fleets based on the Company's weighted discount rate. The value in use, including the discount rate, was calculated by an external appraiser.

The impairment test includes, among other things, an examination of current contribution data compared to data used in previous tests to calculate the recoverable amount as reflected in the Company's current forecasts. If such signs exist, the recoverable amount of the fleet as a whole is estimated in order to determine whether it is necessary to recognize an impairment and what that amount is.

For aircraft for which it has been decided that they are expected to retire from active service in the Company, the Company records the value in the books of those aircraft at their expected realization value, less expected sales costs.

Impairment test in 2021:

As of September 30, 2021 and March 31, 2021, in accordance with the frequent changes in its operations and changes in the business environment during the year, the Company examined the recoverable amount of its assets after identifying signs of impairment as of those dates according to the methodology explained above and, as of September 30, 2021, in accordance with the main assumptions set forth below.

- The Company's aircraft fleet includes all of the Company's aircraft and the cash flow contribution for them, less the required investments, with the exception of two wide-body Boeing 777-200 aircraft, which are expected to be retired from service in the near future (see below). In the short term, the Company also assumed the retirement of five narrow-body Boeing 737-800 aircraft in order to ease the Company's debt structure and capital costs in the near future, while with the expected increase in demand as the forecast progresses on the timeline, the Company is expected to receive replacement aircraft (narrow-body), which will enable it to meet projected demand. The related investments were included in the forecast accordingly.
- The forecast period used is approx. 24 years, until the planned date of retirement from service of the 787-9 and 787-8 aircraft, which are the Company's main fleet. Accordingly, it was assumed, for the purpose of estimating the value of use, that from the date of retirement from service of the other fleets (777-200, 737-800, 737-900, and with the exception of those aircraft expected to be retired from service in the short term, as detailed below) the Company will use leased aircraft of the same models in order to maintain the continuity of aircraft fleet throughout the forecast period and accordingly, on those dates, the Company will invest an amount equal to the present value of the expected lease fees in respect of those leases, according to the expected lease prices based on a price list published by AVAC.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 10 - Fixed Assets and Intangible Assets (continued)

C. Impairment test and depreciation to fair value less realization costs for aircraft expected to be retired from service (continued)

- It was assumed that in each of the subsequent leases, the Company will lease an aircraft, such that the average age of the fleet will be around 12 years throughout the period, which is the accepted average age of aircraft in the industry.
- The Company will gradually reach full activity during 2025, so that in 2022 it will reach a flight volume of approx. 72%, relative to the volume of activity before the crisis, in 2023 to approx. 81% and in 2024 to approx. 91%.
- Variable expenses included air crew salary expenses, fuel, fees, catering, cargo costs and other direct operating expenses. The price of fuel was determined in accordance with the fuel curve from September 30, 2021. Indirect expenses include the Company's overhead expenses, including the salaries of ground and operations personnel.
- The Company's revenues in 2022 will not be affected by the rise in fuel prices. In 2023 and thereafter, full compensation was assumed for the increase in fuel prices in the Company's revenues as a result of the increase in market prices.
- The residual value at the end of the useful life of the aircraft is calculated based on AVAC's forecasts, among other things, depending on the expected condition of the aircraft and engines at the time of their retirement, and amounted to approx. USD 26.0 million (discounted values).
- Agreements with the state regarding the financing of aviation security in the amount of 97.5% will be renewed for the entire forecast period and their terms will remain unchanged.
- Discount rate: For the purpose of discounting the expected cash flows from the operations of the aircraft fleet and for discounting their residual values, an after-tax discount rate of 8.0% is used, which reflects a pre-tax discount rate of approx. 9.14%. The discount rate reflects the operational risk of the aircraft fleet, based on the Company's weighted discount rate.
- The exchange rate of the NIS against the USD throughout the forecast period is according to the representative exchange rate as of September 30, 2021 (which is NIS 3.23 per USD).

As of September 30, 2021, it was found that the recoverable amount of the aircraft fleet exceeds its depreciated cost in the Company's financial statements. Therefore, the Company did not recognize a provision for impairment, except in respect of the aircraft expected to be retired from service, as detailed below.

As of March 31, 2021, the Company performed an impairment test based on the Company's business plan and current forecasts as of that date, the main points of which are similar to the assumptions detailed above and according to the market situation prevailing at the time of this assessment. These assumptions are detailed in the Company's financial statements for the first quarter of 2021, and the full assessment is attached to those financial statements. As of the same date, it was found that the recoverable amount of the aircraft fleet exceeds its depreciated cost in the Company's financial statements.

It should be noted that as of December 31, 2021, the Company did not identify any further signs of impairment in relation to the forecasts used in estimating the recoverable amount as of September 30, 2021, and therefore no further impairment test was performed.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 10 - Fixed Assets and Intangible Assets (continued)

C. Impairment test and depreciation to fair value less realization costs for aircraft expected to be retired from service (continued)

Retirement of aircraft from service and their depreciation to net realizable value:

According to the Company's current business plan, among other things for the purpose of adjusting its expenses as detailed in Note 1.B above, the Company decided to discontinue the service of two Boeing 777-200 aircraft under the Company's ownership. In view of this, the Company updated the book value of those aircraft to the expected sales value for them, according to current market trends, and net of realization costs including their overhaul prior to the sale, depending on the aircraft's maintenance condition.

In respect of the aircraft, the Company recognized a reduction in value in the 'other expenses' item in the Company's statements of profit and loss for 2021, in the amount of approx. USD 43 million.

D. Transaction for the sale and leaseback of a CFM engine (737 fleet):

In June 2021, the Company engaged with a foreign company in a transaction for the sale and leaseback of a CFM engine for a period of 6 years from June 1, 2021 to May 31, 2027 for a consideration of approx. USD 5.2 million. The portion of the consideration attributed to the residual value, in the amount of approx. USD 2.2 million, was recognized in the accounting as a sale and constitutes the amount of the sale for that value, and the difference between that and the relative portion of the depreciated cost of the engine, in the amount of approx. USD 1.6 million, was recognized as a capital gain of approx. USD 0.6 million, which was recorded to the 'other income' item in the Company's statements of profit or loss for 2021. Regarding the balance of the consideration recognized as a lease, see Note 11.E(1) below.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 10 - Fixed Assets and Intangible Assets (continued)

E. Depreciation of other fixed assets and intangible assets:

The balance of the Company's other fixed assets is depreciated in a straight line over the expected life of the various assets, or in the case of leasehold improvements, over the useful life or the balance of the lease period of that property, whichever is shorter.

	As of December 31, 2021		
	Cost	Accumulated Depreciation	Balance
	USD thousands	USD thousands	USD thousands
Buildings and facilities at Ben Gurion Airport	105,205	76,655	28,550
Computers and office furniture	33,243	29,608	3,635
Ground machinery and equipment	65,565	53,975	11,590
Leasehold improvements	25,687	25,511	176
Vehicles and garage equipment	8,522	7,151	1,371
Owned buildings	7,450	3,001	4,449
Intangible assets (1)	85,835	66,267	19,568
	<u>331,508</u>	<u>262,168</u>	<u>69,340</u>

	As of December 31, 2020		
	Cost	Accumulated Depreciation	Balance
	USD thousands	USD thousands	USD thousands
Buildings and facilities at Ben Gurion Airport	104,677	72,999	31,678
Computers and office furniture	32,202	27,081	5,121
Ground machinery and equipment	64,850	52,012	12,838
Leasehold improvements	25,966	25,842	125
Vehicles and garage equipment	8,439	6,626	1,813
Owned buildings	6,938	2,983	3,955
Intangible assets (1)	80,515	56,424	24,091
	<u>323,587</u>	<u>243,967</u>	<u>79,620</u>

(1) This balance mainly includes software purchased by the company, including costs for its development.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 11 - Leases

A. Accounting policies:

(1) General

The Company's aircraft leases, as well as certain other leases such as buildings, including the Ben Gurion Airport campus area leased by the Company from the Israel Airports Authority, facilities and vehicles are recognized as assets and liabilities in the Company's statements of financial position according to the lease term and the contractual lease payments.

The lease period is the period that cannot be canceled by the lessee, plus periods for which there is an option to extend the lease, if it is reasonably certain that the Company will exercise the option, and periods for which there is an option to cancel the lease, if it is reasonably certain that the Company will not exercise the option to cancel. When determining the lease term, the Company takes into account the economic characteristics of the property and the lease, including, among other things, the ratio of the lease payments to the expected market prices when exercising the option, the importance of the leased asset to the Company, the cost of its replacement or the investment made in it, or that will be required in the property replacing the leased property, as well as the Company's past experience regarding those properties. It should be noted that properties for which the contract has expired, but the Company continues to use them against ongoing payments to the property owner, are recognized as a short-term lease, as detailed below, since there is no lease period that cannot be canceled.

Liabilities in respect of leases are presented separately in the statements of financial position (divided into non-current liabilities and current liabilities - current maturities), and are measured upon initial recognition according to the present value of the fixed lease payments in the lease period, plus payments expected in periods covered by options that are reasonably certain to be realized. After the initial recognition, the liability is amortized according to the effective interest method in a manner that increases its book value for the recognition of interest expenses and in a manner that reduces the book balance with the payment attributed to the principal component ("Spitzer"). Exchange rate differences in respect of liabilities denominated in non-USD currencies are recorded to financing expenses in the statements of profit or loss as they arise.

The discount rate used for calculating the present value of the lease fees as stated above, as a rule, is the discount rate inherent in the lease (the internal rate of return on the transaction from the lessee's perspective). Where this rate is not easily found, the Company uses its incremental discount rate (the conceptual financing price in the purchase of the right-of-use in the property from the lessor on full credit) at the time of engagement in the lease, depending on the lease amount, its average life and the nature of the leased property. For leases that existed as of January 1, 2019, in accordance with the transitional provisions of International Financial Reporting Standard IFRS 16, their discount rate is determined in accordance with the incremental discount rate as of January 1, 2019. The discount rate range for the leased aircraft is between 2.9% and 9.1% and the discount rate range for leased property it is between 5.5% and 8.25%.

The asset recognized in respect of the leases is also presented separately in the statements of financial position in the "right-of-use leased assets" item. These assets are measured according to the cost method and are amortized in a straight line over the lease term, and are initially recognized at the initial amount of the lease liability, plus advances paid and direct costs borne by the Company for the lease.

Leases that last less than a year ("short-term leases") and leases of low-value assets are recognized as current expenses and no liabilities or assets are recognized in their respect.

With regard to vehicle leases, the Company has chosen to apply the provisions of the standard as a portfolio, since in the Company's assessment, these leases have similar characteristics. Variable lease payments are also recognized as an expense in the period to which the variable lease payments relate and are not part of the liability or asset in the statements of financial position.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 11 - Leases (continued)

a. Accounting policy: (continued)

Regarding the accounting policy applied in respect of a sale and leaseback, see Note 11.E(1) below.

(2) Changes in lease agreements

When an amendment is made to lease agreements (which is not treated as a separate lease), the liability is remeasured according to the discount rate on the date of the change, and the changes in the value of the liability are recorded to the cost of the right-of-use asset, and they will affect future depreciation expenses. This is except when the change is attributed to a decrease in the scope of the lease, in which case a profit or loss is recognized that reflects the cancellation of the relevant balances in respect of the part of the lease (or the full lease) that has been canceled.

A lease amendment resulting from a waiver or deferral of lease agreements directly attributable to the Corona crisis, the changes in which relate to periods no later than June 30, 2022, are treated as variable lease payments and are recognized in other expenses/income in the statements of profit or loss.

(3) Leased aircraft maintenance

The Company's liabilities to the lessors of leased aircraft for their maintenance are recognized as provisions over the lease period (presented in the long-term and short-term liability items, as applicable) against the recording of current maintenance expenses, according to the pattern of use of the component for which maintenance is required and in accordance with the contractual terms of each lease, based on the amount expected to be paid by the Company at the time of the maintenance event. In contracts where the Company is required to pay maintenance reserves (payments made to the lessor for the purpose of ensuring the maintenance work by the lessee), these payments are recognized as a deposit (long-term or short-term, as applicable), which will be returned to the Company when the actual maintenance work is performed.

(4) Statement of Cash Flows

In the statements of cash flows, the Company classifies the portion of the lease payments that constitutes a repayment of the conceptual reserve of the Company's lease liability as cash flow used in financing activities. The part of the payment that constitutes an interest payment is classified according to the Company's policy as cash flow used in operating activities. In addition, cash flows paid to aircraft lessors as deposits to ensure future maintenance treatments ("maintenance reserves") are classified as cash flows used in investing activities. When the actual treatment is performed, the cash flow for the treatment, which is paid by the Company, is classified as cash flow used in operating activities, while the return of the funds from the collateral (reserve) is classified as a positive cash flow provided by investing activities.

b. Composition and amounts of the Company's leases:

As of December 31, 2021, the Company leases 18 aircraft and 3 engines. The balance of the lease periods ranges from approx. six months to 12 years. In addition, the Company's lease agreements also include leases of additional buildings and facilities, including engagements with the Israel Airports Authority, as well as vehicles, which are leased by the Company and its subsidiaries.

Regarding the status of the leased aircraft as of December 31, 2021, see Note 10.A.(2) above.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 11-Leases (continued)

B. Composition and amounts of the Company's leases: (continued)

(1) Right-of-use leased assets

	<u>Aircraft</u>	<u>Buildings and Vehicles</u>	<u>Total</u>
	USD thousands		
Right-of-use leased assets – depreciated cost			
Balance as of January 1, 2021	798,864	93,559	892,423
Depreciation for the period	(95,866)	(11,795)	(107,661)
Additions	35,258	1,139	36,397
Changes due to linkage	-	68	68
Disposals in respect of leases that ended	-	(4,391)	(4,391)
Balance as of December 31, 2021	738,256	78,580	816,836
Balance as of January 1, 2020	875,770	107,648	983,418
Depreciation for the period	(99,240)	(14,159)	(113,399)
Additions	22,334	645	22,979
Changes due to linkage	-	(107)	(107)
Disposals in respect of leases that ended	-	(468)	(468)
Balance as of December 31, 2020	798,864	93,559	892,423

(2) Lease liabilities:

	<u>Aircraft</u>	<u>Buildings and Vehicles</u>	<u>Total</u>
	USD thousands		
Lease liabilities			
Balance as of January 1, 2021	892,563	125,316	1,017,879
Additions/disposals	34,553	(3,976)	30,577
Payment of the conceptual reserve component (without interest)	(44,441)	(9,030)	(53,471)
Interest accrued and not yet paid	15,462	5,047	20,509
Waiver of rental fees for Corona discounts	-	(9,115)	(9,115)
Exchange rate and linkage differences	-	(333)	(333)
Balance as of December 31, 2021	898,137	107,909	1,006,046
Balance as of January 1, 2020	894,586	126,697	1,021,283
Additions	22,319	110	22,429
Payment of the conceptual reserve component (without interest)	(40,657)	(4,783)	(45,440)
Interest accrued and not yet paid	16,315	1,386	17,701
Exchange rate and linkage differences	-	1,906	1,906
Balance as of December 31, 2020	892,563	125,316	1,017,879

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 11 - Leases (continued)

B. Composition and amounts of the Company's leases: (continued)

(2) Lease liabilities: (continued)

	Aircraft	Buildings and Vehicles	Total
Lease liabilities as of December 31, 2021		USD thousands	
Current lease liabilities	124,667	16,494	141,161
Long-term lease liabilities	773,470	91,415	864,885
Total lease liabilities as of December 31, 2021	898,137	107,909	1,006,046

As of December 31, 2021, the current lease liability balance includes the amount of approx. USD 39.6 million in respect of the deferral of aircraft and engine lease payments and approx. USD 3.1 million in respect of the deferral of building lease payments.

With regard to the projected repayment dates of the liabilities, see Note 14.I below regarding liquidity risk.

C. Amounts recognized in the statements of profit or loss in respect of leases

<u>Expenses (income) recognized in the statements of profit or loss in respect of leases</u>	For the Year ended December 31	
	2021	2020
	USD thousands	
Depreciation expenses in respect of right-of-use assets	107,661	113,399
Interest expenses in respect of lease liabilities	49,001	48,655
Expenses (income) in respect of exchange rate differences	(1,637)	2,101
Expenses related to short-term leases (*)	60,535	37,349
Expenses related to leases of low-value assets	2,449	1,590
Expenses related to variable lease payment that were not included in the measurement of lease liabilities	4,743	1,422
Expenses in respect of leased aircraft overhaul	12,414	9,325
Waiver of rental fees for Corona discounts (including for short-term leases)	(14,753)	-
Capital gain from transaction for the sale and leaseback of a CFM engine (737 fleet)	(578)	-
Total impact on Profit and Loss	219,835	213,841

(*) This amount consists mainly of expenses for wet leases (leasing of an aircraft with its crew) which are usually signed for short periods and are mainly used for cargo.

D. Cash flows in respect of leases

	For the Year ended December 31	
	2021	2020
	USD thousands	
Cash flow in respect of conceptual reserve for leases (financing activities)	53,471	45,440
Cash flow in respect of conceptual interest on leases (operating activities)	28,491	30,951
Total cash flows in respect of lease liabilities	81,962	76,391

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 11 - Leases (continued)

E. Changes in lease agreements in 2021

(1) Arrangements with aircraft lessors

- During the first quarter of 2021, the Company signed with a foreign lessor to extend the lease agreement for a Boeing 737-800 passenger aircraft for an additional period of 54 months (in conjunction with a heavy maintenance audit scheduled for July 2027), beginning in November 2022. The extension was signed as part of a long-term arrangement with the lessor, in which the Company will temporarily pay the monthly lease fee according to an actual flight hours model ("Power by the Hour") for a certain period so that the lease fee will be paid according to the utilization rate of the actual monthly flight hours or according to a determined minimum amount, with the lessor waiving the difference between the original monthly payment and the amount actually paid. The arrangement also includes a payment arrangement for repayment of amounts deferred until the date of signing the arrangement due to the Corona crisis. Due to the aforesaid arrangement, the Company recognized an increase in the right-of-use asset and the lease liability in the amount of approx. USD 4.5 million.
- In 2011, the Company engaged with a foreign company in a sale and leaseback transaction for a TRENT 895 engine for the 777 fleet ("the original engine"). In February 2021, the lease period of the original engine ended and the Company had to return the original engine in accordance with the agreed return conditions or alternatively, subject to certain conditions, the Company had the right to return another engine in place of the original engine. In order to reduce the costs that the Company would be required to pay in order to meet the return conditions of the original engine, the Company returned a replacement engine instead of the original engine that came under the Company's ownership. Accordingly, the Company recognized the engine that returned to its ownership according to the value of the engine it transferred, and taking into account the liability for the payment schedule, in the total amount of approx. USD 3 million.
- In June 2021, the Company engaged with a foreign company in a transaction for the sale and leaseback of a CFM engine for a period of 6 years from June 1, 2021 to May 31, 2027 for a consideration of approx. USD 5.2 million. The portion of the consideration attributed to the residual value, in the amount of approx. USD 2.2 million, was recognized in the accounting as a sale and constitutes the amount of the sale for that value, and the difference between that and the relative portion of the depreciated cost of the engine, in the amount of approx. USD 1.6 million, was recognized as a capital gain of approx. USD 0.6 million, which was recorded to the 'other income' item in the Company's statements of profit or loss for 2021. The balance of the consideration, in the amount of approx. USD 3 million, was recognized as a financing transaction and is recognized as a lease liability, which is measured according to the effective interest method over the lease period. The relative portion of the depreciated cost of the leased engine in the books, in the amount of approx. USD 2.2 million, was classified in the 'right-of-use of leased assets' item. In addition, the Company recognized a liability in respect of the terms of return of the engine, as a maintenance liability for the lessor, in the amount of approx. USD 1.5 million, against an increase in the 'right-of-use of leased assets' item. The amount of the right-of-use asset will be depreciated in a straight line over the lease period.
- In August 2021, the Company signed with a foreign lessor to extend the lease agreement for a Boeing 737-800 passenger aircraft for an additional period of 3 years, starting in October 2021. The arrangement also includes a payment arrangement for repayment of amounts deferred until the date of signing the arrangement due to the Corona crisis. Due to the aforesaid arrangement, the Company recognized an increase in the right-of-use asset and the lease liability in the amount of approx. USD 3.9 million.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 11 - Leases (continued)

E. Changes in lease agreements in 2021 (continued)

- In October 2021, the Company signed long-term arrangements with a foreign lessor from whom the Company leases several aircraft. As part of the agreement, the lease agreements of two Boeing 787-9 aircraft and three Boeing 737-800 aircraft were extended for an additional period of 3 years beyond the current lease date, and a payment arrangement was agreed on for the payment of amounts that were deferred until the date of signing the arrangements due to the Corona crisis, including a waiver of lease fees in certain periods. Due to the aforesaid arrangements, the Company recognized an increase in the right-of-use asset and the lease liability in its 2021 financial statements in the amount of approx. USD 25 million.

(2) Arrangements with airport authorities where the Company operates

During 2021, the Company reached agreements with the authorities at airports where the Company operates regarding leases of certain areas in those airports during the crisis period, such as business lounges which were closed to the public.

(3) Effect of the arrangements on the Company's cash flows and profit or loss

Due to the arrangements described above and due to additional deferrals and waivers, the Company incurred cash flow savings of approx. USD 66 million during 2021. In addition, in respect of the arrangements described above (with the exception of arrangements with aircraft lessors, as described in Section 11.E.1 above), the Company recognized a decrease in the expense of approx. USD 15 million during 2021, which was recorded to other income in the Company's statements of profit or loss.

(4) Deferral of other payments

In addition to the above, the Company recognized an increase in the lease liability in the amount of approx. USD 42.7 million for the deferral of lease payments.

Note 12 - Accounts Payable and Credit balances

Current liabilities:

	As of December 31	
	2021	2020
	USD	USD
	thousands	thousands
Port taxes payable	27,087	22,713
Payables for non-realized flight segments of foreign companies (1)	2,984	3,307
Government institutions	19,980	15,000
Interest payable	2,523	2,741
Deposits received for passenger groups (2)	27,659	1,614
Provisions for future overhauls of leased aircraft (see Note 10.A)	19,211	8,891
Other payables	8,500	12,311
Total	107,944	66,577

- (1) This balance reflects amounts of airline tickets sold by the Company, which must be transferred to foreign companies that will operate the flights.
- (2) This balance reflects amounts received in advance in respect of passenger groups against whom the Company is expected to issue airline tickets at a future date.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 12 - Accounts Payable and Credit balances (continued)

Non-current liabilities:

	As of December 31	
	2021	2020
	USD	USD
	thousands	thousands
Provisions for future overhauls of leased aircraft	96,347	94,570
Other	8,757	5,746
Total	105,105	100,316

Note 13 - Revenue Recognition and Deferred Revenue

A. Background and accounting policy

(1) Revenue and deferred revenue from airline tickets and frequent flyer club points

Flight ticket sales are included as deferred revenue until the date of the flight, when the revenue is recognized in the statements of profit or loss. Revenue from passenger flights also includes revenue from the Company's provision of the service, while the sale of the airline tickets was carried out by other airlines. Revenue from passenger flights also includes revenue from collaboration agreements with other airlines. In these cases, when the service is provided by the other airlines, while the sale is made by the Company, the revenue is presented net, i.e. the Company collects the receipts resulting from the passenger flight, transfers the other airline's share, and recognizes revenue only for the difference between them.

Flight ticket sales, in which the Company gives its customers flight points, as part of the frequent flyer club, which can be converted to flights (or other products) at a later date, are separated into performance obligations, allocating the payment received from the customer to the flight component and to the points component, based on the separate theoretical sale price of the flight point valued by the Company. The consideration attributed to the club points will be recognized as revenue when the service is provided by the Company in exchange for the redemption of the points. Until the date of revenue recognition, the liability in respect of club points is recognized as deferred revenue.

Consideration from the sale of club points to business partners is mostly included as deferred revenue and is recognized as revenue when the service is provided by the Company in exchange for the redemption of the points. Regarding significant accounting considerations and critical estimates that were used in determining the value of the liability in respect of the frequent flyer club points in the financial statements, see Note 2.C.(7).

Revenue from cargo flights is recognized on the date the cargo is delivered to its destination. Revenue from collaboration with foreign companies is recognized gross, i.e. the sale to the customer is recognized as full revenue while the payment to the other airline is recognized as an expense, because in these transactions, unlike with passenger flights, the Company is also a major supplier for other airlines. During 2020, the Company began flying cargo as part of a project in which it engaged with a foreign company, according to which the Company will ensure the sale of the capacity, while the foreign company will fly the cargo. In view of the fact that the Company is the entity responsible to the customer and controls the service performed, the Company also recognizes these revenues gross, while the amount transferred to the foreign company is recognized as an expense.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 13 - Revenue Recognition and Deferred Revenue (continued)

A. Background and accounting policy (continued)

Grants from credit card companies that were received by the Company in 2019 as part of an agreement for the issue and operation of branded credit cards for members of the Company's Frequent Flyer Club were recognized as deferred revenue and amortized to profit or loss in a manner reflecting the term of the agreement to which the grants are attributable (the period in which the agreement cannot be canceled by either of the parties without a significant fine). Due to the conceptual financing component (according to the accounting principles) inherent in some of the grants received, the Company recognizes conceptual interest expenses against an increase in the amount of deferred revenue, which will increase the amount recognized as revenue in the future. Regarding the receipt of a phantom option, see Note 9.C above.

(2) Revenue and deferred revenue from flight tickets for aviation security system personnel

deferred revenue from flight tickets for the aviation security system personnel is recognized over the period of the agreement with the State, which is for a period of 20 years beginning in May 2021, when the Assistance Agreement was signed with the State and the controlling shareholder, as stated in Note 1.B.(5) above. As State funding, on the one hand, it is an aid scheme that is provided given the Company's financial situation and with the intention of helping it and the aviation industry in general to overcome the Corona crisis, and on the other hand, it is an agreement to purchase airline tickets in advance and as compensation for the revenue that would have been generated for the Company if it had been able to sell the seats. According to the Company management's best judgment, this agreement combines a government grant component and a component of a sales agreement with a customer, as defined in the relevant accounting principles.

In order to reflect the two components of the agreement, the Company estimates the discount rate that would have been obtained in a separate theoretical financing transaction with a reasonable market participant at terms consistent with the conceptual credit received at a rate of approx. 17.2%, and the difference between the cash flow actually received and the conceptual cash flow in the transaction (the estimated amount that would have been received at the time of the State during the years of the agreement had it not been received in advance) discounted at a discount rate as stated ("the discounted amount"), constitutes a government grant in the amount of approx. USD 69 million.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 13 - Revenue Recognition and Deferred Revenue (continued)

A. Background and accounting policy: (continued)

The service provided to the State in this agreement for the sales component with the customer is the availability of seats for security personnel and the main factor that will determine the number of airline employees flown is the number of flights the Company will actually operate, at the sole discretion of the Company and its commercial needs. The State, on the other hand, may determine the number of employees flown on flights, which constitutes the secondary factor in determining the actual number of employees flown. Revenue from this component is recognized as revenue from airline tickets from the date of signing the agreement, even though the Company has not yet complied with all the terms of the agreement due to the fact that the flight service was actually received by the State.

Accordingly, the discounted amount was recognized as a sale agreement with a significant financing component since the receipt of the full consideration in advance stems from the State financing in view of the crisis in which it found itself and not in order to pay the flight tickets in advance. Accordingly, deferred revenue was recognized for the sale of airline tickets, and each quarter over the term of the agreement with the State, a financing expense is recognized on the one hand at the amount of the conceptual interest and revenue and, on the other hand, at the conceptual amount that would have been paid if the consideration had been paid in advance. The difference between the financing expenses and the revenue is offset in the balance sheet from the balance of the liability in respect of deferred revenue.

The grant amount is recognized in the 'other expenses and income' item in the statements of profit and loss over the period in which the Company recognizes the relevant costs as expenses for which the grant is intended to provide compensation. See Note 20.E below.

The grant distribution period is until the end of 2025 in accordance with the period of the Company's streamlining plan and as required by the agreement with the State, even though the Company is obligated to fly security personnel for 20 years according to the terms of the agreement. In view of the aforesaid in Note 1.B above, regarding the Company's commitment to carry out an issuance by July 31, 2021 and in view of the agreements in negotiations between the Company and the State and the signing of the Additional Assistance Agreement in November 2021, according to which the issue was postponed to September 2022, the revenue from the grant component was recognized from the fourth quarter of 2021, such that in this quarter revenue was recognized that was not yet recognized in all of 2021 in the total amount of approx. USD 9.6 million. This is because from that date, in the Company's opinion, there is reasonable assurance regarding compliance with the conditions for recognition of the grant, among other things in the context of the signing of the November Agreement, as detailed in Note 1.B above. According to the aforesaid, the Company estimates that as of the date of the financial statements, the Company has an unconditional right to postpone the settlement of the above liability, and therefore, starting from the fourth quarter of 2021, the Company classifies the liability in respect of deferred revenue in the statements of financial position as a long-term liability (with the exception of current maturities).

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 13 - Revenue Recognition and Deferred Revenue (continued)

B. Current liabilities:

	As of December 31	
	2021	2020
	USD	USD
	thousands	thousands
From the sale of airline tickets	228,425	219,777
In respect of club points	37,732	29,736
Grants from credit card companies	5,871	8,593
Flights of aviation security system personnel	14,172	-
Other	2,760	2,764
Total	288,961	260,870

C. Non-current liabilities:

	As of December 31	
	2021	2020
	USD	USD
	thousands	thousands
In respect of club points	130,045	128,187
Grants from credit card companies	26,179	31,965
Flights of aviation security system personnel	192,648	-
Total	348,872	160,151

For information regarding the flights of aviation security system personnel, see Note 13.A.(2) above.

D. Movement in the liability in respect of frequent flyer club points:

	As of December 31	
	2021	2020
	USD	USD
	thousands	thousands
Opening balance	157,923	118,147
Increase in liability for accrual of points	65,817	59,797
Decrease in liability for realizations and expiry of points	(55,963)	(20,021)
Closing balance	167,777	157,923

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 14 - Loans and Bonds

A. Accounting policy

The loans taken by the Company to finance the purchase of aircraft are initially recognized in the amount raised, after deducting transaction costs and commissions paid, mainly for guarantees provided to the Company by third parties, such as the Export-Import Bank of the United States (EXIM) and the government agency for promoting exports from England (UKEF) and a consortium of insurance companies that provides insurance policies to banks by means of an insurance policy issued by the Aircraft Finance Insurance Consortium (AFIC), (see below). Subsequent to the initial recognition date, the loans are measured at amortized cost using the effective interest method.

When there is a change in the terms of the loan, including a deferral of principal and interest payments (see below), the Company examines whether this is a significant change in the terms of the debt. An insignificant change is treated so that the Company calculates the balance of the cash flows according to the current terms, discounts them at the original effective interest rate, and records the loan balance in the books according to the calculated value. The difference between the calculated value and the book value of the loan is recorded to the financing item in the statements of profit or loss. No changes were found to be a significant change in the debt.

With regard to the accounting policy for a loan from the controlling shareholder and recognition of a government grant in respect of a grant component in bonds issued to the State of Israel, see Note 14.G and 14.H below. Regarding the classification of short-term loans, see Note 1.B above.

B. Composition:

	As of December 31	
	2021	2020
	USD thousands	USD thousands
Loans from banking corporations (see Note 14.C)	1,128,536	1,191,937
Loan from controlling shareholder (see Note 14.G)	50,000	10,000
Bonds to the State of Israel (see Note 14.H)	4,839	-
	1,183,375	1,201,937

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 14 - Loans and Bonds (continued)

C. Movement and balances in respect of loans from banking corporations:

	Fixed- Interest Loans	Variable- Interest Loans (Libor)	Loans to Finance Advance Payments on Aircraft ("PDP")	Overdrafts	Total
	USD thousands	USD thousands	USD thousands	USD thousands	USD thousands
For the Year ended December 31, 2021:					
Annual interest in percentages	1.82-5.56	0.63-6.59	3.75	-	-
As of January 1, 2021:					
Current maturities	32,799	96,645	31,080	19,651	180,175
Long-term loans	254,010	757,751	-	-	1,011,761
Total loans	286,809	854,396	31,080	19,651	1,191,936
Movement during 2021:					
Receipt of long-term loans (see Note 14.D(1) and (2) below)	-	44,475	-	-	44,475
Current repayments and movement in overdraft	(27,299)	(79,704)	-	(456)	(107,459)
Other changes	(5,559)	5,142	-	-	(417)
Total loans as of December 31, 2021	253,950	824,309	31,080	19,195	1,128,536
Of which: current maturities	32,867	109,623	31,080	19,195	192,767
Total long-term loans*	221,083	714,685	-	-	935,769

* Regarding the classification of the Company's loans as short-term liabilities due to the lenders' grounds for immediate repayment, see Note 1.B above.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 14 - Loans and Bonds (continued)

C. Movement and balances in respect of loans from banking corporations:

	Fixed- Interest Loans	Variable- Interest Loans (Libor)	Loans to Finance Advance Payments on Aircraft ("PDP")	Overdrafts	Total
	USD thousands	USD thousands	USD thousands	USD thousands	USD thousands
For the Year ended December 31, 2020:					
Annual interest in percentages	1.82-5.56	0.74-4.44	2.81	-	-
As of January 1, 2020					
Current maturities	35,613	98,208	62,024	22,007	217,852
Long-term loans	254,661	741,773	-	-	996,434
Total loans	290,274	839,981	62,024	22,007	1,214,286
Movement during 2020:					
Receipt of long-term loans and repayment of loans for PDP financing (see Note 14.D.(1))	18,750	113,900	(30,944)	-	101,706
Current repayments and movement in overdraft	(31,473)	(94,851)	-	(2,356)	(128,680)
Other changes	9,258	(4,633)	-	-	4,625
Total loans as of December 31, 2020	286,809	854,397	31,080	19,651	1,191,937
Of which: current maturities	32,799	96,646	31,080	19,651	180,176
Total long-term loans*	254,010	757,751	-	-	1,011,761

* Regarding the classification of the Company's loans as short-term liabilities due to the lenders' grounds for immediate repayment, see Note 1.B above.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 14 - Loans and Bonds (continued)

D. Changes in the Company's loan status in the reporting year

- (1) In August 2021, the Company signed a memorandum of understanding with a foreign company regarding the refinancing of three Boeing 737-800, including their six engines. The amount of financing provided to the Company is USD 40 million at a variable interest rate of 1-Month LIBOR plus a spread, for a period of 4 years, according to a pre-determined repayment schedule with a balloon balance of approx. USD 15 million. Regarding the classification of all the Company's loans as current liabilities, see Note 1.B above.
- (2) In September 2021, the Company signed an agreement for the receipt of financing in the amount of approx. USD 4.5 million at variable quarterly Libor interest plus a margin, for a period of 1.5 years, for a Boeing 777-200 aircraft.
- (3) Due to the Corona crisis, which led to the suspension of passenger flights for a long period (see Note 1 above), and in order to adjust current loan payments to the outline for the return to activity, the Company applied to several financing entities (Israeli and foreign) to defer principal payments on the loans with a commitment to ongoing payment of interest in the period in which the principal payments are deferred (the deferral period), and to spread out the deferred principal payments to later periods. As of December 31, 2021, the Company has reached agreements with the financing entities to defer payments in the amount of approx. USD 96 million, which will be paid during the years 2021-2026.

E. Collateral and ratio of loans to collateral:

Some of the credit agreements (which are not included in "reportable credit" according to the guidelines of the Securities Authority) stipulate that the ratio of the balance of debt to the bank to the market value of the encumbered aircraft may not exceed 80% (see table below). A test for compliance with this ratio will be performed based on certain international professional publications that were determined regarding the market value of the aircraft. It was also determined that if the actual collateral ratio is lower than the above rate, the Company will provide additional collateral, or advance repayments of liabilities to the banking corporations, in order to meet the required ratio.

Due to the Corona crisis, there has been a decline in the price of aircraft worldwide. Accordingly, the decline in the value of the aircraft, which are used as collateral for loans, as explained above, or in some cases - for all the credit provided by the bank to the Company, resulted in non-compliance with the financial covenants in some of the banks as of the date of the statements of financial position and as of the date of publication of the ratio of the value of collateral to the loan or credit (LTV). Under the loan agreements, non-compliance with the required ratio establishes the banks' right to supplemental collateral as specified below and, if this is not provided, the right to demand immediate repayment of the loans. Following the Company's request to these banks to waive compliance with the aforesaid ratio, the banks informed the Company that they waive compliance with the aforesaid ratio as of December 31, 2021 and as of the date of publication of the financial statements.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 14 - Loans and Bonds (continued)

E. Collateral and ratio of loans to collateral (continued):

The following is a list of the Company's sources of financing, the collateral provided against the loans and, where applicable, the requirement for a ratio of the unpaid balance to the collateral value:

<u>Financing Source</u>	<u>Unpaid Balance as of Dec. 31, 2021</u>	<u>Aircraft and Reserve Engines as Collateral</u>	<u>Requirement for Ratio of Unpaid Balance to Collateral Value</u>
	<u>USD thousands</u>		
		Three 777-200 aircraft	
		Three 737-800 aircraft	
<u>Local bank (1)</u>	<u>31,133</u>	<u>One 737-900 aircraft</u>	<u>80%</u>
<u>Local bank (1)</u>	<u>4,475</u>	<u>One 777-200 aircraft</u>	<u>50%</u>
<u>Local banks</u>	<u>46,979</u>	<u>Two 737-900 aircraft</u>	<u>80%</u>
		Two 777-200 aircraft	
		Four reserve engines	
<u>Foreign banks</u>	<u>300,336</u>	<u>Two 787-9 aircraft</u>	<u>-</u>
		One 737-900 aircraft	
		Three 737-800 aircraft	
		One 787-9 aircraft	
<u>Foreign banks (2)</u>	<u>413,639</u>	<u>Two 787-8 aircraft</u>	<u>-</u>
		One 787-9 aircraft	
<u>Foreign banks (3)</u>	<u>238,044</u>	<u>One 787-8 aircraft</u>	<u>-</u>
<u>Bonds issued by designated company (SPC) (4)</u>	<u>61,987</u>	<u>Four 737-900 aircraft</u>	<u>-</u>

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 14 - Loans and Bonds (continued)

E. Collateral and ratio of loans to collateral (continued):

- (1) There is a Cross Default mechanism between the various loans of the same banking institution.
- (2) There is a Cross Default mechanism between the loans secured by EXIM or UKEF guarantees of the various financing institutions.
- (3) There is a Cross Default mechanism between the loans secured by the AFIC insurance policy through a consortium of insurance companies that provides insurance policies to banks that finance aircraft purchases.
- (4) Loans taken to finance aircraft, and financed by bonds issued by designated companies (SPC) that are not owned by the Company, and are guaranteed by EXIM, a US government-owned bank, with the Company's repayment of the bonds being principal and interest payments made to the designated company. In the event that the bonds are not repaid in an orderly fashion by the Company, and the EXIM guarantee is exercised, EXIM may realize the pledged aircraft to repay the balance of the bonds. To the extent that the funds from the realization of the aircraft are not sufficient to cover the amount of the guarantee, the Company will be obligated to repay the balance of the debt to EXIM. It should be noted that there is a Cross Default mechanism between these loans and the loans listed in note (2) above.

It should be noted that some of the existing loans as of December 31, 2021, are repayable early by the Company, as is customary. In addition, some of the agreements for loans taken by the Company include the right of the bank to demand immediate repayment of the balances of the loans provided by the relevant bank upon the occurrence of certain events, such as a merger or a transfer of control without the prior written consent of the banking institution, as well as the existence of additional and standard events customary in financing transactions. Regarding the grounds for lenders to demand the immediate repayment of all the loans, see Note 1.B above.

F. Fair value of loans:

	<u>As of December 31, 2021</u>		<u>As of December 31, 2020</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
	<u>USD thousands</u>	<u>USD thousands</u>	<u>USD thousands</u>	<u>USD thousands</u>
Long-term fixed interest USD loans	<u>257,860</u>	<u>(*) 273,804</u>	<u>292,457</u>	<u>(*) 313,516</u>

(*) The fair value of these loans as of December 31, 2021 and December 31, 2020 is approximately the same as the unpaid balance of the loans, plus accrued interest and early repayment penalties, in view of the classification of the loans as current liabilities (see Note 1.B above).

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 14 - Loans and Bonds (continued)

G. Loans from the controlling shareholder

During November 2021, loans were received from the controlling shareholder in the amount of approx. USD 50 million in accordance with the assistance agreement signed with the State, the Company and the controlling shareholder, as detailed in Note 1.B.(5) above. The loans do not accrue interest and can be converted into capital by the controlling shareholder at any time for a variable number of shares depending on the share price close to the date of conversion. Accordingly, the fair value of the loans on the date of initial recognition is the full amount received, and they are classified as a current liability in the statements of financial position.

H. Bonds to the State of Israel

In November 2021, the Company received the amount of approx. USD 7 million from the State in accordance with the Assistance Agreement signed between the State, the controlling shareholder and the Company against the allocation of bonds by the Company, as detailed in Note 1.B(5) above, which do not bear interest, for a period of 3 years. At the end of the 3 years, the Company may repay the bonds or convert them into the Company's shares, according to the average share price in the 30 days preceding the end of the period, at a reduction of 7.5% from the above average price.

The bonds are initially recognized according to the cash settlement alternative, which is the more economical alternative for the Company, according to the discount rate that would have been obtained in a separate theoretical financing transaction with a reasonable market participant, which is approx. 13.4%. In view of the fact that the bonds were given in the context of the assistance given to the Company for the damage it incurred as a result of the State-imposed traffic restrictions due to the outbreak of the Delta strain, the difference between the actual amount received and the fair value of the liability on the date of initial recognition constitutes a government grant in the amount of approx. USD 2.2 million.

Accordingly, the grant component was recognized in the 'other expenses and income' item in the statements of profit or loss in the fourth quarter of 2021 at the time the grant was received, since the compensation is for losses incurred by the Company prior to receiving the grant in respect of the Delta strain.

I. Liquidity risk in respect of loans and leases:

The following table lists the contractual repayment dates (including agreements with the financing entities for deferral or spreading out of payments, see Note 14.C.2 above) of the Company's liabilities for principal and interest payments on loans, as well as minimum lease payments for aircraft leases and other leases. The table has been prepared based on the non-discounted cash flows, according to the contractual date on which the Company is required to repay its liabilities. It should be emphasized that the liquidity analysis was conducted in this manner even though the Company's liabilities in respect of loans from banking and other corporations were classified as current liabilities according to the accounting principles due to the grounds for making the loans immediately repayable, as stated in Note 1.B above.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 14 - Loans and Bonds (continued)

I. Liquidity risk in respect of loans and leases: (continued)

	2022	2023	2024	2025	2026 onwards	Total
	USD millions					
Current repayments of loan reserve	144	147	131	134	557	1,113
Current reserve payments in respect of leases	141	108	112	109	536	1,006
Total current repayments	285	255	243	243	1,093	2,119
Repayments of loan for the financing of advance payments on account of aircraft (PDP) (1)	31	-	-	-	-	31
Payment that will be included in the statements of profit or loss and will therefore be included in cash flows from operating activities:						
Interest payments in respect of loans (2)	20	20	18	14	60	132
Interest payments in respect of leases	41	36	31	26	74	208
Total interest payments	61	56	49	40	134	340
Repayments of bonds to the State of Israel (3)	-	-	7	-	-	7
Total payments	377	311	299	283	1,227	2,497

- (1) In view of the Corona crisis, the receipt of the sixteenth and last Dreamliner 787-8 aircraft was postponed, which the Company was expected to receive during March 2020 as part of the equipping transaction. As of a date close to the approval of the report, Boeing has agreed to defer receipt of the aircraft until March 2023. See Note 10.A above. The repayment of the loan taken by the Company from a financial institution, for the purpose of paying an advance in respect of the aircraft in the amount of approx. USD 31 million, was postponed until December 2022.
- (2) Interest payments in respect of loans do not include interest rate hedging payments. Regarding the liquidity risk in respect of derivative financial instruments, including interest rate hedging, see Note 19 below.
- (3) The bonds allotted to the State will be repaid at the end of 3 years from the date of their issue, although the Company may repay the bonds in shares according to the conversion mechanism detailed in Section H above.
- (4) It should be noted that loans from the controlling shareholder can be repaid to capital at any time by the controlling shareholder. These loans were not included as part of the liquidity analysis.

The Company's sources for repaying these liabilities are capital raising, obtaining loans from the State and from the controlling shareholder due to the additional assistance agreements (see Note 1.B above regarding funds received subsequent to the date of the statements of financial position), debt raising against the club assets, deferral of debt payments and other leases, all as stated in Note 1.B above, as well as current cash flows which are expected to result from the continued recovery in the volume of activity and as a result of the streamlining carried out by the Company.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Liabilities for Employee Benefit Obligations

A. Accounting policy:

(1) Post-employment benefits:

Post-employment benefits include a liability for retirement and severance pay, including a retirement grant for senior pilots, redemption of sick days, adjustment grants for senior executives and certain benefits for Company retirees. In addition, the benefits also include pension payments for certain local employees in the United States and England. The Company's post-employment benefits are partly defined contribution plans and partly defined benefit plans.

Expenses in respect of the Company's commitment to deposit funds under a Defined Contribution Plan are recognized in the statements of profit or loss on the date of receipt of the work services, for which the Company is obligated to make the deposit.

Expenses in respect of a Defined Benefit Plan are recognized in the statements of profit or loss in accordance with the Projected Unit Credit Method, using actuarial estimates. The present value of the Company's obligation in respect of a Defined Benefit Plan is determined by discounting the expected future cash flows in respect of the plan using the market yields of high quality corporate bonds denominated in the currency in which the benefits will be paid in respect of the plan, and having approximately the same repayment periods as of the dates of the expected settlement of the plan.

The cost of the service is recorded to the 'salary expenses' item. The net interest cost (after offsetting the return on plan assets) is included in the statements of profit or loss under 'financing expenses'. Actuarial gains and losses in respect of post-employment plans are recognized in other comprehensive income at the time of their creation and will not be reclassified to profit or loss at a later date.

The plan assets are measured at fair value. Interest income on the plan assets is determined based on the discount rate of the appropriate obligations and is recognized in profit or loss as part of the net interest cost. The difference between interest income on the plan assets and their actual return is recorded to other comprehensive income and will not be reclassified to profit or loss at a later date.

(2) Other long-term employee benefits:

Other long-term employee benefits are benefits that are expected to be utilized in a period exceeding 12 months from the end of the period in which the service qualifying for the benefit was provided.

Other employee benefits include utilization and redemption of vacation and rest days, a study grant for children of employees and jubilee grants. These benefits are recognized and measured in the same way that post-employment benefits are recognized, provided that actuarial gains and losses in their respect are recognized in profit or loss at the time of their creation, instead of to other comprehensive income.

(3) Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be paid in full within 12 months from the end of the year in which the qualifying service is provided by the employee.

Short-term employee benefits include the Company's liability for current wages. These benefits are recognized in the income statements at the time of their creation.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Liabilities for Employee Benefit Obligations (continued)

A. Accounting policy: (continued)

(4) Benefits for dismissal and early retirement plans:

Dismissal benefits are recognized when the Company is actually obligated to the employees to provide the benefits, and not against a significant future service of those employees. The amount of the liability is determined according to the present value of the expected cash flows in respect of the obligation.

- (5)** With regard to significant accounting considerations and critical estimates that were used in determining the value of the liability in the financial statements, see Note 2.C.(3).

Note 15 - Liabilities for Employee Benefit Obligations (continued)

B. Composition:

	Reference	Plan Currency	As of December 31, 2021			As of December 31, 2020		
			Current liabilities	Non-Current Liabilities	Non-current assets	Current liabilities	Non-Current Liabilities	Non-current assets
			USD thousands	USD thousands	USD thousands	USD thousands	USD thousands	USD thousands
Short-term employee benefits:								
Wages, salaries and social benefits		Mainly NIS	36,206	-	-	28,801	-	-
Post-employment benefits:								
Benefit for retirement and severance pay in Israel	C	NIS	-	39,246	-	8,599	30,399	-
Redemption of sick days	D	NIS	-	33,217	-	8,402	30,793	-
<u>Pension funds for employees in branches:</u>								
United States	E	USD	-	204	-	-	(159)	-
England		GBP	-	4,358	-	-	8,081	-
Retiree benefits	F	NIS	-	14,666	-	-	13,637	-
Other post-employment benefits	G	NIS	-	5,230	-	-	6,104	-
			-	-	-	-	-	-
Other long-term employee benefits:								
Liability for vacation and rest*	I1	NIS	52,522	-	-	61,772	-	-
Other long-term benefits	I2	NIS	-	3,651	-	-	3,992	-
Dismissal benefits:								
Voluntary retirement plans	J	NIS	14,408	(92)	-	45,407	(829)	-
Total in the statement of financial position			103,136	100,480	-	152,981	92,019	-

* It should be noted that a liability for vacation and rest is presented in the statements of financial position as a current liability, although it is expected to be realized after a period of 12 months from the reporting date (and is therefore defined as a long-term benefit). This is because the Company does not have an "unconditional right" to defer the settlement of the obligation for this period, and therefore according to the accounting principles, the liability is presented in the short term.

Note 15 - Liabilities for Employee Benefit Obligations (continued)

C. Benefits for retirement and dismissal of employees in Israel:

(1) The Company's obligation in respect of retirement and severance pay in Israel (for permanent employees under a collective agreement):

The Company's employment agreements, the labor laws in Israel and the "Severance Pay Law, 1963 require the Company to pay severance pay to employees at the time of their dismissal or retirement.

Regulated payments for retirement and dismissal of the Company's employees:

As of September 1992, the social rights of some of the Company's employees are regulated under a designated pension agreement (the "Agreement"). The agreement stipulates that the Company's payments to the pension fund and an approved fund (executive insurance or a provident fund) in respect of an employee who joins the pension arrangement, will replace the obligation to pay severance pay to that employee, in accordance with Section 14 of the Severance Pay Law, 1963, for the same part of the wages and for the same period for which the payments were made. Generally, employees who were given tenure in the Company after the above date were required to join the program. It should also be noted that most of the employees who joined the Company from September 1992 are signed onto Section 14 as aforesaid (whether they are permanent, temporary or senior executives).

Defined contribution plan:

Accordingly, the current deposits in pension funds and policies in insurance companies exempt the Company from any additional obligation to employees, and as for long-time employees who joined the pension agreement in 1992, the exemption is only in respect of periods for which deposits were made.

Defined benefit plan:

With regard to the period between the commencement of the employee's employment with the Company and the date of the employee's joining the aforementioned pension agreement, the employees are entitled to severance pay according to their salary when they retire from the Company, for the number of years in that period. Employees who have not joined the pension agreement are entitled to severance pay in the amount of their salary at the time of retirement from the Company for all their years of employment in the Company.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Liabilities for Employee Benefit Obligations (continued)

C. Benefits for retirement and dismissal of employees in Israel: (continued)

(2) Arrangements and plans for ensuring retirement and dismissal payments (the plan assets):

According to the provisions of the collective agreement, the Company deposited 8.33% of the current salary of the employees in provident funds for compensation in Israeli banks in the Company's name. In accordance with the agreement signed on December 22, 2011, in view of a legislative arrangement that entered into effect on January 1, 2011, and which no longer allows deposits for severance pay in the Central Compensation Fund, senior employees who until December 31, 2010 had funds deposited for them in the Central Fund, from January 1, 2011 the funds are deposited for them into a compensation component in a provident fund in the name of the employee. Currently, most of the program's assets constitute personal funds of the employees managed by leading investment houses in the economy.

(3) Retirement grant for senior pilots:

Senior pilots, upon reaching the age of 65, a date when they can no longer continue to serve as active pilots under the Pilot Regulations, and who do not serve as instructors or supervisors, terminate their employment with the Company and are entitled to a retirement grant (in addition to severance pay, to which they are legally entitled) in amounts stipulated in the agreement. This commitment is paid from the Company's current sources.

(4) Managers and senior executives:

Senior employees, including senior executives, are employed according to personal employment agreements, with a number of senior employees entitled to receive for their period of employment, in addition to severance pay by law, payment of additional retirement compensation (two compensations) at a rate of one month per year for their period of employment according to the last total salary. It should be clarified that senior employees and managers who joined the Company after 2011 are not entitled to such additional compensation. This commitment is funded by dedicated personal funds.

D. Redemption of sick days:

Permanent employees (with the exception of employees on personal contracts), when they retire from the Company on compulsory retirement or who have retired over the age of 45 on conditions that entitle them to compensation, are entitled to the redemption of sick days according to the conversion formula set forth in the collective agreement. It should be noted that the allowable accrual ceiling for sick days for some employees is higher than stipulated by law, and it depends on the date of commencement of their employment with the Company. This commitment is paid from the Company's current sources.

E. Pension funds of some of the Company's local employees in the United States and in England:

Some of the Company's local employees in the US and the UK benefit from pension plans (the "plans") under which the Company pays the pension cost of employees of those offices. The pension cost is calculated as the product of the "years of entitlement" to the pension at a rate of the determining salary for the pension. Retirement from the age of 65 usually entitles the employee to full benefits. The pension fund assets are managed by a dedicated body and are invested, primarily, in negotiable securities. The company undertook to cover any deficit that would be created in the value of the fund assets in relation to the actuarial liabilities, whatever they may be.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Liabilities for Employee Benefit Obligations (continued)

E. Pension funds of some of the Company's local employees in the United States and in England: (continued)

With regard to the UK pension fund, as of 2005, the fund does not accept new employees and there is also no further accrual of rights within its framework. The US Pension Fund is also closed to new members, but for existing employees who are part of the arrangement, there is still an accrual of rights.

The compulsory payments are financed mainly from the plan assets, but in view of the existing deficit in the pension plans, the Company supplements certain amounts in respect of the obligation from its own sources as well.

F. Retiree benefits:

After their retirement, Company employees are entitled (subject to seniority) to flight tickets and gifts for the holidays in accordance with the Company's policy.

G. Other post-employment benefits:

Other benefits include an adjustment grant to which some of the Company's senior employees are entitled. In addition, in some of the Company's offices abroad, the Company's local employees are entitled to severance pay in accordance with local law and in accordance with the Company's agreements. Moreover, the other benefits include liabilities for severance pay of the subsidiaries.

H. Multi-employer program in a subsidiary:

Borenstein Caterers Inc. (USA) participates in a multi-employer pension plan for some of its employees, for which the subsidiary invested the amount of approx. USD 301 thousand in 2021. The subsidiary's share in the plan's unfunded liabilities as of December 31, 2021 is approx. USD 7.4 million, so that if the subsidiary ceases to make such ongoing payments, or withdraws from the plan, it will have to bear this amount. The subsidiary intends to continue to deposit funds into the plan, therefore no liability has been recognized in the financial statements in its respect.

I. Dismissal benefits (retirement plans and the cost of dismissal):

Further to Note 1.B above, in June and July 2020, the Company and the Histadrut signed individual convalescence agreements with respect to the four employee sectors in the Company (pilots, flight attendants, maintenance and engineering, administration) which entered into effect after meeting a number of conditions during 2021.

According to the agreements, the Company recognized a provision and expense (in the 'other expenses' item) of approx. USD 45 million in 2020. The liability included increased retirement benefits and bridging pensions up to the legal retirement age as well as a grant for prior notice. It should be noted that the Company recognized the liability as of December 31, 2020, despite the agreements being conditional, since at that time it believed that it did not have the unconditional ability to withdraw from the relevant obligations in the agreements in this context. During the second quarter of 2021 and as of December 31, 2021, the Company completed the dismissal process and paid its obligations in this regard accordingly.

Note 15 - Liabilities for Employee Benefit Obligations (continued)

I. Dismissal benefits (retirement plans and the cost of dismissal): (continued)

In addition, as stated in Note 1.B above, as part of another streamlining measure, in October 2021 the Company's Board of Directors approved the collective agreements it signed with the Histadrut, the Maintenance Committee and the Administrative Committee regarding the arrangement of another plan for providing increased compensation or a monthly annuity to the Company's permanent employees who will choose to retire voluntarily, according to the conditions set forth in the agreements as stated above. In view of this, the Company recognized a provision and expense (in the 'other expenses' item) of approx. USD 17 million.

J. Key management personnel

For information regarding expenses in respect of remuneration of key management personnel, see Note 22.C below.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Liabilities for Employee Benefit Obligations (continued)

K. Details of the quantitative effects in respect of defined benefit plans on the financial statements

	Severance Pay in Israel	Redemption of Sick Days	Pension Funds	Retiree Benefits	Other Benefits	Total
	USD	USD	USD	USD	USD	USD
	thousands	thousands	thousands	thousands	thousands	thousands
Amounts recognized in the statements of profit or loss in respect of defined benefit plans:						
For the Year ended December 31, 2021:						
Service cost	5,838	841	122	77	879	7,757
Interest cost	1,256	689	1,550	407	78	3,980
Return on plan assets according to discount rate	(595)	-	(1,475)	-	-	(2,070)
Real return transferred from compensation item to benefits	61	-	-	-	-	61
Exchange rate differences	1,091	1,083	(62)	410	207	2,729
Other changes in the period	-	-	-	-	-	-
Total	7,651	2,613	135	894	1,164	12,457
For the Year ended December 31, 2020:						
Service cost	9,325	875	124	299	(117)	10,506
Interest cost	1,283	747	1,982	434	206	4,652
Return on plan assets according to discount rate	(903)	-	(1,878)	-	60	(2,721)
Real return transferred from compensation item to benefits	86	-	-	-	-	86
Exchange rate differences	2,181	2,349	183	779	232	5,724
Other changes in the period	-	34	-	-	127	161
Total	11,972	4,005	411	1,512	508	18,408
For the Year ended December 31, 2019:						
Service cost	6,647	1,762	423	221	1,147	10,200
Interest cost	2,545	1,118	2,428	522	299	6,912
Return on plan assets according to discount rate	(4,430)	-	(2,113)	-	(145)	(6,688)
Real return transferred from compensation item to benefits	113	-	-	-	-	113
Exchange rate differences	(4,887)	2,837	397	835	265	(553)
Other changes in the period	-	34	-	-	(35)	(1)
Total	(12)	5,751	1,135	1,578	1,531	9,983

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Liabilities for Employee Benefit Obligations (continued)

K. Details of the quantitative effects in respect of defined benefit plans on the financial statements (continued)

Expenses in respect of defined benefit plans are included in the following items in the statements of profit or loss:

	<u>For the Year ended December 31</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>
	<u>thousands</u>	<u>thousands</u>	<u>thousands</u>
Operating expenses (see also Section C(3) above)	8,469	13,231	7,836
Sales expenses	591	923	547
General and administrative expenses	1,487	2,323	1,376
Financing expenses	1,910	1,931	224
Total	12,457	18,408	9,983

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Liabilities for Employee Benefit Obligations (continued)

K. Details of the quantitative effects in respect of defined benefit plans on the financial statements (continued)

	For the Year ended December 31, 2021					
	Severance Pay in Israel	Redemption of Sick Days	Retiree Benefits	Pension Funds	Other Benefits	Total
	USD	USD	USD	USD	USD	USD
	thousands	thousands	thousands	thousands	thousands	thousands
Movement in the present value of the obligation:						
Opening balance - present value of obligation	73,511	39,195	13,637	80,147	10,705	217,195
Service cost	5,838	841	77	122	879	7,757
Interest cost	1,256	689	407	1,550	78	3,980
Actuarial (gains) losses	(3,148)	(125)	185	(4,712)	(522)	(8,322)
Benefits paid	(24,949)	(8,465)	(51)	(3,648)	(932)	(38,045)
Changes in exchange rate	1,704	1,083	410	(180)	232	3,249
Other changes in the period	-	-	-	-	(2,529)	(2,529)
Closing balance - present value of obligation	54,212	33,218	14,665	73,279	7,911	183,285
Change in fair value of plan assets:						
Opening balance - fair value of plan assets	33,910	-	-	72,225	1,877	108,012
Return on plan assets according to discount rate	595	-	-	1,475	-	2,070
Remeasurements for the difference between the actual return on the plan's assets and the return calculated according to the discount rate	(5,629)	-	-	(2,293)	-	(7,922)
Employer contribution	764	-	-	1,074	-	1,838
Benefits paid	(15,225)	-	-	(3,648)	-	(18,873)
Real return transferred from compensation item to benefits item	(61)	-	-	-	-	(61)
Changes in exchange rate	612	-	-	(118)	25	519
Other changes in the period	-	-	-	-	779	779
Closing balance - fair value of plan assets	14,966	-	-	68,715	2,681	86,362
Average life of the obligation (in years)	7.8	8.5	18.7			
Discount rate in percentages	2.1	2.15	2.65-3.6			
Sensitivity analysis for a 1% increase in the discount rate	(1,285)	(2,313)	(2,387)			

The discount rate for the US pension is 2.71% and for the UK pension 1.8%.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

K. Details of the quantitative effects in respect of defined benefit plans on the financial statements (continued)

	For the Year ended December 31, 2020					
	Severance Pay in Israel USD thousands	Redemption of Sick Days USD thousands	Retiree Benefits USD thousands	Pension Funds USD thousands	Other Benefits USD thousands	Total USD thousands
Movement in the present value of the obligation:						
Opening balance - present value of obligation	79,368	42,599	14,343	74,365	11,787	222,462
Service cost	9,325	875	299	124	(117)	10,506
Interest cost	1,283	747	434	1,982	206	4,652
Actuarial (gains) losses	(2,961)	(2,788)	(2,197)	6,424	(1,801)	(3,323)
Benefits paid	(18,776)	(4,604)	(23)	(3,499)	(706)	(27,608)
Changes in exchange rate	5,281	2,349	779	752	450	9,611
Other changes in the period	-	34	-	-	127	161
Closing balance - present value of obligation	73,520	39,212	13,635	80,148	9,946	216,461
Change in fair value of plan assets:						
Opening balance - fair value of plan assets	141,483	-	-	66,873	4,228	212,584
Return on plan assets according to discount rate	903	-	-	1,878	(60)	2,721
Remeasurements for the difference between the actual return on the plan's assets and the return calculated according to the discount rate	(4,901)	-	-	5,410	(457)	52
Employer contribution	408	-	-	995	150	1,553
Benefits paid	(9,785)	-	-	(3,499)	(237)	(13,521)
Withdrawal of compensation fund surpluses	(96,600)	-	-	-	-	(96,600)
Real return transferred from compensation item to benefits item	(86)	-	-	-	-	(86)
Changes in exchange rate	3,099	-	-	569	218	3,886
Other changes in the period	-	-	-	-	-	-
Closing balance - fair value of plan assets	34,521	-	-	72,226	3,842	110,589
Average life of the obligation (in years)	8.0	8.7	17.6			
Discount rate in percentages	1.9	1.95	2.45 - 3.4			
Sensitivity analysis for a 1% increase in the discount rate	(2,036)	(2,840)	(2,447)			

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Liabilities for Employee Benefit Obligations (continued)

K. Details of the quantitative effects in respect of defined benefit plans on the financial statements (continued)

Additional actuarial assumptions:

The main actuarial assumptions (beyond the interest rate as detailed above in the quantitative data) used by the Company to estimate their quantitative liabilities and effects as detailed above are as follows:

- The projected rate of increase in wages in the medium and long term is between 3% and 5.5%. In the short term and in the context of convalescence agreements, the wage increase rate is reduced, in accordance with the agreements. If the projected rate of increase in wages was higher by one percent in relation to the rate taken into account when calculating the obligation, the liability for post-employment benefits (with the exception of pension) would have increased by approx. USD 14.3 million. The above sensitivity analysis was determined based on reasonably possible changes in the actuarial assumptions at the end of the reporting period. Sensitivity analysis does not take into account any interdependence that exists between the assumptions.
- The departure rate is estimated in a range between 1.1% and 4.4% depending on the age of the population.

L. Other long-term employee benefits:

(1) Paid vacation days:

In accordance with the Annual Leave Law, 1951 and in accordance with the Company's employment agreements, the Company's employees are entitled to paid vacation days for each year of work. An employee who ceased working before utilizing the balance of the vacation days accrued, is entitled to payment for the balance of the vacation days upon retirement. In addition, some employees of the Company are entitled to rest days which are redeemed upon retirement, as long as an accumulated balance remains. The Company's obligation for a vacation also includes its obligation for these days.

(2) Other long-term benefits:

These benefits mainly include a grant for the academic studies of employees' children as well as jubilee grants for employees who reach 20, 30 and 40 years of seniority in the Company, who are entitled to a gift awarded in an annual "Decade Ceremony" held by the Company. It should be noted that the streamlining agreement stipulates that during the term of the agreement, the employees will not be entitled to funding for their children's academic studies.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Liabilities for Employee Benefit Obligations (continued)

L. Other long-term employee benefits: (continued)

(3) Details of the quantitative effects in respect of other long-term employee benefits on the financial statements:

	Vacation and Rest	Other Long- Term Benefits
	USD	USD
	thousands	thousands
For the Year ended December 31, 2021:		
Opening balance	61,772	3,989
Amounts recognized in the statements of profit or loss in respect of defined benefit plans:		
Service cost	14,069	262
Interest cost	1,002	77
Exchange rate differences	1,735	123
Actuarial (gains) losses*	(7,796)	(741)
Total	9,010	(279)
Benefits paid	(18,263)	(56)
Closing balance	52,519	3,654
Average life of the obligation (in years)	8.4	11.2
For the Year ended December 31, 2020:		
Opening balance	59,466	4,589
Amounts recognized in the statements of profit or loss in respect of defined benefit plans:		
Service cost	18,385	(502)
Interest cost	992	86
Exchange rate differences	3,767	262
Actuarial (gains) losses	(2,830)	(355)
Total	20,314	(508)
Benefits paid	(18,615)	(86)
Closing balance	61,165	3,994
Average life of the obligation (in years)	8.5	11.1
For the Year ended December 31, 2019:		
Opening balance	44,733	3,990
Amounts recognized in the statements of profit or loss in respect of defined benefit plans:		
Service cost	46,369	188
Interest cost	1,417	142
Exchange rate differences	3,856	337
Actuarial (gains) losses	5,387	299
Total	57,029	966
Benefits paid	(42,250)	(367)
Closing balance	59,512	4,589
Average life of the obligation (in years)	8.5	11.3

* Most of the actuarial gain is due to the increase in the interest rate and the low accumulation of vacation and rest days in relation to what is expected.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Liabilities for Employee Benefit Obligations (continued)

L. Other long-term employee benefits: (continued)

(4) Expenses in respect of vacation and rest are included in the following items in the statements of profit or loss:

	For the Year ended December 31		
	2021	2020	2019
	USD	USD	USD
	thousands	thousands	thousands
Operating expenses	6,430	15,516	44,656
Sales expenses	449	1,082	3,115
General and administrative expenses	1,129	2,724	7,841
Financing expenses	1,002	992	1,417
Total	9,010	20,314	57,029

Note 16 - Provisions and Contingent Liabilities

In accordance with International Accounting Standard IAS 37, the financial statements recognize provisions for claims and legal proceedings, for which a negative cash flow is expected (with a probability of over 50%), which in the opinion of the Company's management, based, among other things, on the opinions of its legal counsel, are appropriate with regard to the circumstances of the case. These provisions are recognized, in respect of claims and legal proceedings, as aforesaid, against the Company, which in the opinion of the management there is a likelihood that they will not be dismissed or canceled, even though it denies the above claims.

With regard to significant accounting considerations and critical estimates that were used in determining the value of the liability in the financial statements, see Note 2.C.(3).

As of December 31, 2021, claims totaling approx. USD 1,501 million and claims that are not quantified in monetary amounts were filed against the Company. In respect of these claims, the Company recognized a provision in the financial statements in the total amount of approx. USD 13.1 million. In the opinion of the Company's management, which is based on the opinion of its legal counsel, it is not expected that the Company will be exposed to an additional loss in respect of the above claims beyond the amounts of the provisions included in the financial statements.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Provisions and Contingent Liabilities (continued):

a. Movement in Provisions:

	State of Israel for Controversy over Compensation Fund Surplus of Eligible Employees USD thousands	Other Provisions USD thousands	Total USD thousands
Balance as of January 1, 2020	9,517	14,224	23,741
Additional provisions recognized including updating of existing provisions)	-	1,781	1,781
Amounts utilized and canceled during the year	(9,557)	(1,640)	(11,197)
Exchange rate effect	40	285	325
Balance as of December 31, 2020	-	14,650	14,650
Additional provisions recognized including updating of existing provisions)	-	242	242
Amounts utilized and canceled during the year	-	(1,890)	(1,890)
Exchange rate effect	-	134	134
Balance as of December 31, 2021	-	13,136	13,136

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Provisions and Contingent Liabilities (continued)

B. Details of the main legal proceedings:

The following are the class actions that have been filed against the Company:

No.	Date of Claim	Type of Claim / Court	Subject of Claim	Amount Claimed	Status	Accounting Effects
1	February 2013	Class action / Central District	The application for approval is based on a claim of a large-scale global restrictive arrangement to coordinate various components of cargo shipping prices on flights, and in particular the fuel and security additions. The application was also filed against British Airways, Lufthansa and Swiss Airlines.	NIS 473 million	In January 2020, the court approved the claim as a class action. According to the decision, the group members who are directly harmed are all customers who sent cargo to Israel or from Israel (except from/to the US) from January 1, 2000 until the end of the arrangement which is, at the earliest, February 14, 2006, and those who are indirectly harmed who are all customers of the directly harmed customers, who purchased from the directly harmed customers cargo delivery services to or from Israel (except from/to the US) during the above period. The remedy claimed is compensation for the damage caused to the group members which constitutes the difference between the price actually charged in view of the alleged coordination, including the fuel and security additions, and the price that would have been charged under competitive market conditions had it not been for the alleged coordination. The Company filed a request to appeal to the Supreme Court against the District Court's decision to approve the claim as a class action, and at the same time filed an application for stay of execution. In June 2020, the Supreme Court granted the Company's request and ordered a stay of execution of the District Court decision pending a different decision and a stay of proceedings before the District Court with respect to all parties to the proceeding. In addition, the Supreme Court determined that the request to appeal required a response and ordered the respondents to file responses to the request.	The Company recognized a provision in its financial statements, according to management's estimate and based on the opinion of its legal counsel, in respect of the claim.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Provisions and Contingent Liabilities (continued)

B. Details of the main legal proceedings:

The following are the class actions that have been filed against the Company:

No.	Date of Claim	Type of Claim / Court	Subject of Claim	Amount Claimed	Status	Accounting Effects
2	January 2015	Class action / Central District	The application for approval is based on a claim for non-refund of port fees and/or taxes charged by the Company from the passengers at the time of charging the flight tickets in cases where the passengers did not show up for the flight.	NIS 60 million (a personal amount of NIS 257)	In September 2019, the court approved the claim as a class action. According to the decision, the group members are all customers of the Company who purchased a flight ticket from the Company in the seven years before filing the claim and did not show up for the flight or the flight segment, and the Company did not refund all port taxes directly or indirectly (including a refund through the travel agent through whom the ticket was purchased) where the company did not transfer the amounts it charged for this purpose to the various airports, or where it can claim their return from the port authorities. The remedies sought are the refund of the amounts the Company must return to the group members, together with linkage differences and interest from the date it should have been returned and an order for the Company to act to inform its customers of their right to a refund of port taxes. The parties resorted to mediation proceedings.	The Company recognized a provision in its financial statements, according to management's estimate and based on the opinion of its legal counsel, in respect of the claim.
3	April 2015	Class action / Tel Aviv District	The claim is based on a claim that the company unilaterally changed the terms of the club's program in a number of characteristics, all of which constitute a significant deterioration of the club's terms and a material economic injury to the value of the points earned by the group.	NIS 1.3 billion (a personal amount of NIS 7,300)	In November 2017, the court approved the claim as a class action. According to the decision, the group members are all of the club members who at the time of each of the changes made in the club plan, held points and the value of their points decreased due to the changes. In December 2017, the Company filed a request to appeal to the Supreme Court against the decision to approve the claim as a class action. At the same time, the parties resorted to mediation proceedings which ended without success in February 2019. The request to appeal was denied in October 2019 and the parties agreed to re-apply for mediation proceedings.	The Company recognized a provision in its financial statements, according to management's estimate and based on the opinion of its legal counsel, in respect of the claim.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Provisions and Contingent Liabilities (continued)

B. Details of the main legal proceedings (continued):

The following are the class actions that have been filed against the Company: (continued)

No.	Date of Claim	Type of Claim / Court	Subject of Claim	Amount Claimed	Status	Accounting Effects
4	August 2016	Application for class action approval / Central District	The application for approval is based on the claim that the Company advertises, markets and sells flight tickets according to its advertised flight schedule, while from the beginning it does not have enough pilots and captains to carry out the flight schedule.	Not quantified	The company filed its response to the application for approval. An evidentiary hearing was held and the application for approval set deadlines for the filing of summaries.	The Company's management estimates, based on the opinion of its legal counsel, that it is more likely than not that the claim will be dismissed.
5	December 2016	Application for class action approval / Central District	The application for approval is based on a claim that the Company charges customers who make a change in the flight ticket an additional payment that is the difference between the price of the original flight and the price of the alternative flight, in cases where the alternative flight is cheaper.	NIS 92.3 million (a personal amount of USD 179.8)	The company filed its response to the request for approval. The parties resorted to mediation proceedings, at the end of which a settlement agreement was reached. The parties submitted the settlement agreement to the court for approval.	The settlement agreement does not have a significant effect on the Company's financial statements.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Provisions and Contingent Liabilities (continued)

B. Details of the main legal proceedings (continued):

The following are the class actions that have been filed against the Company: (continued)

No.	Date of Claim	Type of Claim / Court	Subject of Claim	Amount Claimed	Status	Accounting Effects
6	February 2017	Request for class action approval / Central District	The application for approval is based on the claim that in the event of cancellation or delay of a flight, the Company is acting in violation of the Aviation Services Law, 2012, and other obligations. The group defined in the application is, among other things, the Company's customers whose flight was canceled and did not receive a refund of the ticket price or an alternative flight of their choice, the Company's customers who did not receive assistance services and information sheets regarding their rights to benefits and the Company's customers who received a misleading response from the Company.	A personal amount of NIS 44,615	The company filed its response to the application for approval. The application for approval is at the summary stage.	The Company recognized a provision in its financial statements, according to management's estimate and based on the opinion of its legal counsel, in respect of the claim.
7	October 2017	Application for class action approval / Central District	The application for approval is based on various claims regarding the seats on the plane, in which there is a restriction to leaning back.	NIS 33 million (a personal amount of NIS 577)	The company filed its response to the application for approval. The procedure is set for an evidentiary hearing.	The Company's management estimates, based on the opinion of its legal counsel, that it is more likely than not that the claim will be dismissed.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Provisions and Contingent Liabilities (continued)

B. Details of the main legal proceedings (continued):

The following are the class actions that have been filed against the Company: (continued)

No.	Date of Claim	Type of Claim / Court	Subject of Claim	Amount Claimed	Status	Accounting Effects
8	February 2018	Application for class action approval / Central District	The application for approval is based on an allegation that the Company abused its position as a declared monopoly on the Tel Aviv-Mumbai route by charging an unfairly high price to time-sensitive passengers, and it was also argued that the avoidance of an Indian airline entering the Tel Aviv-Mumbai route constitutes a restrictive arrangement.	NIS 321 million (a personal amount of NIS 11,250)	The company filed its response to the application for approval. At the end of a preliminary hearing, it was agreed that from the application for approval and from the claim, the grounds of a restrictive arrangement and relief for non-pecuniary damage would be deleted. The Company was also given the right to file a supplementary response, which was indeed filed in February 2020. The proceeding was delayed at the request of the parties pending a Supreme Court decision in another proceeding.	The Company's management estimates, based on the opinion of its legal counsel, that it is more likely than not that the claim will be dismissed.
9	March 2018	Amended application for class action approval / Central District	The Company illegally collects a "security levy".	NIS 612 million (a personal amount of NIS 371)	The Company filed its response to the amended application for approval. The application for approval is at the evidentiary stage.	The Company's management estimates, based on the opinion of its legal counsel, that it is more likely than not that the claim will be dismissed.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Provisions and Contingent Liabilities (continued)

B. Details of the main legal proceedings (continued):

The following are the class actions that have been filed against the Company: (continued)

No.	Date of Claim	Type of Claim / Court	Subject of Claim	Amount Claimed	Status	Accounting Effects
10	July 2020	Application for class action approval / Central District	The application for approval is based on a claim that the Company does not refund its customers who purchased airline tickets for flights that were scheduled to take off from February 1, 2020 and were canceled, the amounts paid within the time set for this by law and that apparently the Company does not inform consumers and the public regarding their right to a refund and/or that they must apply in writing for the refund. It was further alleged in the application that the Company violated, among other things, the provisions of the Aviation Services Law (Compensation and Assistance due to Cancellation of a Flight or a Change in its Conditions), 2012, as well as other laws.	USD 400 million (a personal amount of NIS 3,710)	On March 26, 2021m a judgment was given in which the court approved the applicant's withdrawal of the approval application and on March 31, 2021, the applicant filed a request to cancel the judgment. On April 27, 2021, a hearing was held in court on the request for cancellation and it was agreed that the applicant's notice of withdrawal and the judgment would be cancelled, with each party maintaining its claims. On July 13, 2021, a hearing was held, at the end of which and in accordance with the court's recommendation, the parties began a dialogue to examine the possibility of concluding the procedure by agreement. After no agreement was reached between the parties, the application for approval was set for further preliminary hearing.	At this stage, in the context of a request to dismiss a judgment several months ago, it is not yet possible to assess the chances of the claim being accepted.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Provisions and Contingent Liabilities (continued)

B. Details of the main legal proceedings (continued):

The following are the class actions that have been filed against the Company: (continued)

No.	Date of Claim	Type of Claim / Court	Subject of Claim	Amount Claimed	Status	Accounting Effects
11	January 2021	Application for class action approval / Central District	The application for approval is based on a claim that the Company began marketing on April 30, 2018, "upgraded flight tickets" of the Flex type that are supposedly not respected by the airlines with which it has agreements and sometimes operates the actual flights. According to the applicants, on October 27, 2019, the Company amended its publications regarding Flex cards and noted that some of the benefits of Flex cards do not exist on return flights to Israel. The application included a calculation for claimed damage, consisting of compensation in the amount of half of the cost of a Flex card, a non-financial compensation in the amount of NIS 1,000 and sample compensation in the amount of NIS 1,000.	NIS 450 million (a personal amount of NIS 4,625)	The company will file its response to the application for approval.	At this preliminary stage, it is not yet possible to assess the chances of the claim being accepted.

In addition to the above table, additional applications were filed against the Company for approval of class actions as of December 31, 2021, in the total amount of approx. NIS 65.5 million (approx. USD 21 million). In respect of these applications, the Company did not recognize a provision in the financial statements.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Provisions and Contingent Liabilities (continued)

B. Details of the main legal proceedings (continued):

Legal proceedings that have ended:

- (12) In respect of a claim filed against the Company in the Central District Court in the amount of approx. USD 20 million, the main allegations of which are breach of contract, damages and unjust enrichment in a joint venture involving credit cards in the United States between the Company's Frequent Flyer Club and Heritage Affinity Services Ltd. ("HAS"), a company registered in the state of New York, USA that has a wholly owned subsidiary incorporated in Israel, and regarding the statement of defense and the statement of claim filed by the Company in the amount of approx. USD 1.9 million in respect of the obligation of HAS to the Company, on May 11, 2021, a judgment was given validating a comprehensive and agreed settlement reached between the parties. As part of the settlement, it was agreed, among other things, that the Company will pay the plaintiff the amount of approx. NIS 4 million. It should be noted that the Company was not required to make a further provision in its financial statements for 2021 in respect of the arrangement.
- (13) In respect of a claim filed against the Company in the Tel Aviv Regional Labor Court by 130 security employees, demanding declaratory relief as a basis for determining that the collective labor agreement regulating the rights of the Company employees applies to the plaintiffs and to grant monetary relief in respect of various wage components, in June 2021 a supplementary judgment was given in the case in which the claim was rejected in its entirety.
- (14) On August 4, 2021, the Company's offices received derivative claim documents and a request for approval as a derivative claim, which were filed at the Tel Aviv-Yafo District Court by a shareholder in the Company. The application was filed against the Company, members of the Company's Board of Directors, who served as of July 2021, and against Kanfei Nesharim Aviation Ltd. (the "controlling shareholder").
- The main allegations are that the members of the Company's Board of Directors violated their duty of care and their fiduciary duty towards the Company – they did not act for the Company to carry out an issue of share capital, options or mix of the two by July 31, 2021, in an amount of at least USD 105 million ("the issue") as the Company undertook in the agreement signed with the State on March 18, 2021 ("the agreement with the State"), and did not at least insist on the controlling shareholder's obligation under the issue to order an amount of no less than USD 43 million. In the application, the requested remedies are: (1) the Company's compensation for damage caused to it in the amount of USD 105 million; (2) the Company's compensation for damage caused to it in the amount of USD 43 million, the amount that the controlling shareholder undertook to invest in the Company as part of the issue; or (3) the issuance of a mandatory injunction according to which the Company must carry out the issue in the manner specified in the agreement with the State. In addition, the court is asked to order the controlling shareholder to pay the company a total of USD 43 million, in view of the breach of its undertaking to purchase shares in this amount as part of the issue. On December 30, 2021, an agreed application by the applicant, the Company and the members of the Board of Directors as aforesaid, to approve the applicant's withdrawal from the action and to close the action without an order for costs. On January 2, 2022, subsequent to the date of the statements of financial position, the judgment granting the request for withdrawal was given, and subject to the receipt of affidavits that the applicant and his representatives did not receive a benefit against the withdrawal, ordering the cancellation of the claim without an order for costs.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Provisions and Contingent Liabilities (continued)

B. Details of the main legal proceedings (continued):

- (15) In respect of an application for approval of a claim as a derivative claim filed against the Company in the Central District Court by a shareholder holding 247 of the Company's ordinary shares, in the amount of NIS 9 million, following the criminal investigation opened in the case of Mr. Pinchas Ginzburg, a former director and shareholder in the Company, and alleging that inside information, in his possession, by virtue of his status and position in the Company, when he made a transaction to sell some of his shares in the Company in July 2017. On August 15, 2021, had been used, the State Attorney's Office submitted - in view of the delay in the proceedings until after the completion of the criminal investigation - a notice to the court that it had recently decided to close the criminal case against Mr. Ginzburg. On January 27, 2022, subsequent to the date of the statements of financial position, the judgment granted to the (agreed) application submitted by the applicant was given, ordering the cancellation of the procedure without an order for costs.

Note 17 - Taxes on Income

Deferred taxes are recognized in respect of temporary differences between the value of assets and liabilities for tax purposes and their value in the financial statements. Deferred tax balances (asset or liability) are calculated according to the expected tax rate at the time of realization, in accordance with the tax laws substantively enacted as of December 31, 2021, as detailed below. The Company recognized a deferred tax asset for the losses carried forward for tax purposes only up to the reset of the amount of the liability for deferred taxes in respect of other temporary differences, due to the uncertainty prevailing in the business environment in which the Company operates. Also, in calculating the deferred taxes, the taxes that would apply in the event of the realization of the investments in investee companies are not taken into account, since these temporary differences are under the control of the Company and are not expected to be reversed in the foreseeable future.

a. Deferred tax asset (liability) balances:

	Balance as of January 1, 2021	Recognize d in Profit or Loss	Recognized in Other Comprehensive Income	Recognize d in Equity	Balance as of December 31, 2021
	USD	USD	USD	USD	USD
	thousands	thousands	thousands	thousands	thousands
Timing differences:					
Fixed assets	(260,720)	(34,481)	-	-	(295,200)
Derivative financial instruments	15,256	(9,119)	(10,383)	-	(4,247)
Provisions and doubtful debts	4,542	(691)	-	-	3,851
Employee benefit obligations	46,068	(32,398)	(135)	-	13,535
	<u>(194,854)</u>	<u>(76,689)</u>	<u>(10,518)</u>	<u>-</u>	<u>(282,061)</u>
Issue costs	-	(281)	-	281	-
Losses for tax purposes*	194,613	87,448	-	-	282,061
	<u>194,613</u>	<u>87,448</u>	<u>-</u>	<u>-</u>	<u>282,061</u>
Total	<u>(241)</u>	<u>10,478</u>	<u>(10,518)</u>	<u>281</u>	<u>-</u>

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 17 - Taxes on Income (continued)

	Balance as of January 1, 2020	Recognize d in Profit or Loss	Recognized in Other Comprehensive Income	Recognized in Equity	Balance as of December 31, 2020
	USD	USD	USD	USD	USD
	thousands	thousands	thousands	thousands	thousands
Timing differences:					
Fixed assets	(205,167)	(55,553)	-	-	(260,720)
Derivative financial instruments	1,062	1,426	12,768	-	15,256
Provisions and doubtful debts	3,266	1,276	-	-	4,542
Employee benefit obligations	14,926	31,481	(339)	-	46,068
	<u>(185,913)</u>	<u>(21,370)</u>	<u>12,429</u>	<u>-</u>	<u>(194,854)</u>
Issue costs	-	(317)	-	317	-
Losses for tax purposes*	131,390	63,222	-	-	194,613
Total	<u>(54,523)</u>	<u>41,536</u>	<u>12,429</u>	<u>317</u>	<u>(241)</u>

* The Company's balance of losses carried forward for tax purposes at the end of 2021 is approx. USD 1,921 million. The Company did not recognize a tax asset for an amount of USD 695.1 million due to uncertainty regarding the expected realization. The Company recognized a tax asset in its financial statements for the balance of the loss carried forward, up to the amount of the liability.

B. Income tax expenses recognized in profit or loss:

	For the Year ended December 31		
	2021	2020	2019
	USD	USD	USD
	thousands	thousands	thousands
Current tax expenses	353	1,104	671
Deferred taxes	(10,478)	(41,536)	(17,632)
Amortization of surplus asset	-	9,911	-
Tax benefit	<u>(10,125)</u>	<u>(30,520)</u>	<u>(16,961)</u>

It should be noted that the tax benefit recognized in 2021 is a result of the movement in the Company's other comprehensive income, which resulted in a decrease in tax assets attributed to equity, against which a tax asset was recognized for losses carried forward in the amount of the existing liabilities (so that the deferred tax balance will be reset) as detailed above.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 17 - Taxes on Income (continued)

C. Effective tax:

	For the Year ended December 31		
	2021	2020	2019
	USD	USD	USD
	thousands	thousands	thousands
Loss before taxes on income and before some of the profits of associated companies - (but including the revaluation of Maman options)	(423,169)	(561,970)	(77,830)
Statutory tax rate	23%	23%	23%
Tax benefit according to the statutory tax rate	(97,329)	(129,253)	(17,901)
Additional tax in respect of:			
Non-deductible expenses	271	328	636
Tax expenses in respect of the sale of an associated company for which no deferred taxes were recognized	-	753	-
Non-recognition of a tax asset, including write-off of surplus asset	88,712	97,295	-
Other differences	(1,780)	357	304
Total tax benefits in the statements of profit or loss	(10,125)	(30,520)	(16,961)

D. The tax laws applicable to the Company:

- (1) According to the Income Tax Regulations (Rules regarding the Management of Accounting Ledgers of Companies in Foreign Investments and Certain Partnerships and Determination of their Taxable Income), 1986, the results of the Company and of some of its subsidiaries are measured for tax purposes on a USD basis. Some of the consolidated companies are assessed together with the Company.
- (2) The Company is an industrial company as defined in the Encouragement of Industry law (Taxes), 1969, and is accordingly entitled to increased depreciation rates on aircraft and flight equipment. According to the Income Tax Regulations (Depreciation), 1941, the Company is entitled to depreciation in respect of these asset items at an annual rate of 30%, and in respect of engines, an annual depreciation rate of 40%.

E. Final assessments:

The Company has tax assessments that are considered final up to and including the 2016 tax year.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 18 - Capital and Surplus

A. The Company's share capital

	Registered		Issued and Paid-Up	
	Special Share	Ordinary Shares	Special Share	Ordinary Shares
	NIS 1 PV	NIS 1 PV	NIS 1 PV	NIS 1 PV
	NIS	NIS	NIS	NIS
Balance as of December 31, 2021	1	1,875,000,000	1	168,804,083
Balance as of December 31, 2020	1	2,500,000,000	1	1,249,072,135

In October 2021, the Company consolidated the ordinary shares in a ratio of 1 to 8, followed by a reduction in the par value of the ordinary shares to NIS 1 PV so that the number of shares prior to the consolidation was 1,350,422,665 shares, and after the consolidation the number of shares is 168,802,833 shares. Following the capital consolidation, the Company also retrospectively adjusted the data regarding the basic loss per share.

B. Options

On February 14, 2021, the Company published an additional shelf offer report based on the shelf prospectus published on August 31, 2020, as detailed in Note 1.B above. The options are exercisable for the Company's shares, in consideration for an additional exercise price of NIS 0.30 per option, linked to the USD. After the consolidation of capital as detailed in Section A above, all 8 options are exercisable for one NIS 1 PV share.

As part of the tender that took place in connection with the offer of the options, the Company allocated a total of 1,250,000,000 options for a consideration (gross) in the amount of NIS 250 million, which at the time of the issue amounted to approx. USD 77 million, before issue costs, and were recorded (net of issue costs and deferred tax attributed to them) to the Company's equity. See also Note 1.B above. Subsequently, during 2021, approx. 101,350,531 option warrants were exercised in exchange for the same number of shares of NIS 1 PV. The exercise price paid to the Company is approx. USD 9.3 million.

As of December 31, 2021, there are 1,148,649,469 options (Series 2) that are exercisable for the Company's shares (at a ratio of 8 options per share).

C. Earnings per share:

The issuance of the options issued in February 2021, has a significant potential impact on the number of potential shares for the calculation of the diluted earnings per share. In addition, in respect of the convertible shareholder loan as stated in Note 1.B above and in accordance with the bonds which can be converted into shares of the Company's choice, the Company has additional diluted potential shares. Depending on the average share price in the relevant periods (adjusted for the capital consolidation), the number of potential shares that would have been added to the diluted earnings per share calculation for these instruments is 58,786,600 shares. In view of the fact that in 2021 the Company recognized a loss, these potential shares had no effect on the actual diluted earnings per share.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 18 - Capital and Surplus (continued)

D. The special State share and its accompanying rights:

On May 18, 2003, the Company allotted a special share to the Government of Israel which is not for sale or transfer. The special share is intended to protect the vital interests of the State, in accordance with government decisions, as follows:

- Maintaining the existence of the Company as an Israeli company to which Israeli law applies;
- Maintaining the operating capacity and the passengers and cargo flight capacity not to fall below the minimum quantity determined;
- Preventing hostile entities or entities that may harm the vital affairs of the state from becoming an interested party in the Company or having any influence in any other way on its management;
- Maintaining the Company's safety and security arrangements as determined by State entities on behalf of the State.

In addition, the Government Companies Order (Declaration of a Vital Interest to the State in El Al Israel Airways Ltd.), 2004, states that the State has a vital interest in the connection with the Company, to allow effective use of essential assets (aircraft that constitute minimum flight capacity, as defined in the Company's Articles of Association) in case of emergency or for security purposes to ensure the continued existence of activities that are essential for national security and that the Company will employ, at all times, Israeli air crew members, and in Israel - Israeli ground crews, who have the necessary training and licensing to operate the essential assets, all in a number not less than required for the continuous and simultaneous operation of all the essential assets in case of an emergency or security need. As of the date of signing these consolidated financial statements, the provisions of the order do not obligate the Company to make any change in the manner of operation or to make any change in the composition of its employees.

For further details regarding the capital raising and the assistance agreements with the State, see Note 1.B. to the Financial Statements.

E. The Company's policy regarding dividend distributions:

As part of the Company's dividend distribution 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.

The implementation of this policy is subject to the provisions of any law and the Company's Board of Directors' assessment of the Company's ability to meet its existing and expected liabilities from time to time, and taking into account the Company's existing liquidity, operations and business plans or those expected in the future. The adoption of this policy does not detract from the authority of the Company's Board of Directors to decide at any time on changing, amending and/or canceling the dividend policy determined in this decision and/or to approve additional distributions within the limits permitted by law and/or to decide to reduce the rate of the dividend to be actually distributed or to avoid a distribution with attention to the Company's liquidity, its activities, its business and its condition that changes from time to time.

In July 2020, the Company's Board of Directors confirmed that to the extent that the Company takes out a State-guaranteed loan, the Company will not distribute dividends or repurchase shares for the period of the loan until the date of the full loan repayment, except with the prior consent of the financing entity and the State. See also Note 1.B above.

As part of the Company's signing of an agreement with the State, the Company undertook not to make a dividend distribution, including a repurchase of shares, until the end of 2025, and that any distribution or dividend distribution, including a repurchase of shares, between 2026 and 2028 (inclusive) will not exceed 30% of the total net profit in all the aforesaid years together as of the date of distribution.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 19 - Derivative Financial Instruments and Hedge Accounts

A. Management of financial risks and their source:

The Company uses a variety of derivative financial instruments to manage the exposures to jet fuel price changes, which has a direct effect on the Company's operating expenses, the exposures to changes in interest stemming from loans granted to the Company at variable interest rates and the exposure to exchange rates, which are mainly due to the NIS salary expenses in most of the Company and certain debt components denominated in JPY. The Company also has certain exposures, small in scope, to other currencies mainly due to excess receipts over payments in these currencies.

The Company's Board of Directors is responsible for approving the Company's market risk management policy and oversees the implementation of the policy through the Market Risk Management Committee. The Board of Directors is responsible for defining the policy and updating it. The committee audits the policy implementation and has the authority to give instructions/approvals to the Company's management to deviate from the implementation of the policy according to various developments (this committee receives a monthly report from the CFO). The Company CEO is responsible for making decisions regarding the actual execution of hedging transactions in accordance with the policy and guidelines of the committee.

The Company's Finance Division provides services to the business activity, enables access to local and international financial markets, monitors and manages the financial risks associated with the Company's activities through internal reports that analyze the degree of exposure to risks according to their level and intensity.

As of December 31, 2021, the Company's derivative instruments are designated as hedging instruments in cash flow hedge accounting. The hedging relationship is documented by the Company at the time of entering into the hedging transaction. The documentation identifies the hedge instrument, the hedged item, the hedged risk, the hedging strategy implemented, and the degree of compliance of the strategy with the Company's hedging policy is examined. It should be noted that, among other things, due to the uncertainty regarding the market situation and the rate of recovery, the volume of new hedging transactions made by the Company during the year is relatively low.

B. Accounting policy:

Insofar as the Company's hedging instruments are recognized as effective, changes in the value of derivative financial instruments designated for cash flow hedging are initially recognized in the statements of other comprehensive income (and in the Company's equity), and are subsequently recognized in the statements of profit and loss, when the hedged forecast transaction is recorded in the statements of profit or loss (for example, the purchase of jet fuel). In particular, on the date of recording the results of the hedging transactions to the statements of profit and loss, the results of the jet fuel hedging transactions are recorded to the 'fuel expenses' item, while forward contracts for protecting the NIS-USD exchange rate are recorded to 'wage expenses', which constitute the hedged forecast transaction, for this purpose.

When hedging by options is done using only their intrinsic value, changes in the fair value of the time component in respect of those options will also be recognized in other comprehensive income (and will be presented in the statements of changes in equity in a separate capital reserve) and will be classified to profit or loss with the occurrence of the hedged transaction, or, under certain conditions, earlier.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 19 - Derivative Financial Instruments and Hedge Accounts (continued)

B. Accounting policy: (continued)

The effectiveness of the hedging is examined through a principled test based on "economic ratios", where the evaluation of the effectiveness of the hedging is done prospectively according to the extent of consumption of the hedged item in relation to the extent of the hedging.

When the Company's hedging instruments are not recognized as effective, the Company records the gain or loss accrued in respect of the hedging instruments in the statements of other comprehensive income (capital reserve) to profit or loss, even before the expiration of the hedging instrument, in the 'financing expenses' item. Revaluations of these derivatives, after being recognized as ineffective, are also recorded to financing expenses. Where the Company realizes a hedging instrument prior to the occurrence of the hedged transaction, the deferred profit or loss is recognized in respect of the hedging instrument realized on the date of the hedged transaction.

C. Composition of derivative financial instruments in the statements of financial position:

	As of December 31, 2021		
	Date of Contractual Payment (Receipt)	Nominal Amount	Current assets
	USD	USD	USD
	thousands	thousands	thousands
Derivative financial instruments designated as hedging items:			
Jet fuel hedging transactions	1/22-3/22	6,198	250
Total assets in respect of derivative financial instruments			250

	As of December 31, 2021				
	Date of Contractual Payment (Receipt)	Nominal Amount	Current Liabilities	Non- Current Liabilities	Total Fair Value
	USD	USD	USD	USD	USD
	thousands	thousands	thousands	thousands	thousands
Derivative financial instruments designated as hedging items:					
Interest rate hedging transactions	1/22-8/30	* 546,896	(1,203)	(9,667)	(10,870)
Exchange rate hedging transactions	8/29	32,646	(8,058)	(8,058)	(8,058)
Total liabilities in respect of derivative financial instruments			(1,203)	(17,725)	(18,928)

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 19 - Derivative Financial Instruments and Hedge Accounts (continued)

C. Composition of derivative financial instruments in the statements of financial position: (continued)

	As of December 31, 2020				
	Date of Contractual Payment (Receipt)	Nominal Amount	Current Liabilities	Non- Current Liabilities	Total Fair Value
	USD	USD	USD	USD	USD
	thousands	thousands	thousands	thousands	thousands
Derivative financial instruments designated as hedging items:					
Jet fuel hedging transactions	4-12/21	93,079	17,272	-	17,272
Interest hedging transactions	4/21-8/30	* 613,139	2,808	33,972	36,780
Exchange rate hedging transactions	8/29	31,159	-	5,258	5,258
Total derivative financial instruments designated as hedging items:			20,080	39,230	59,310
Jet fuel hedging transactions not recognized as effective	1-3/21	39,023	6,831	-	6,831
Total liabilities in respect of derivative financial instruments			26,911	39,230	66,141

* Reflects the principal amount.

D. Jet fuel derivatives:

(1) Jet fuel hedging policy just prior to the Corona crisis

The purpose of the financial hedging of jet fuel prices was to ensure the purchase price range of the jet fuel, in order to protect against the Company's exposure to changes in global jet fuel prices.

According to the Company's policy on the subject, the jet fuel is hedged for a period of 12-24 months in advance, in a rolling manner every month and at decreasing rates, as follows:

- For the coming month, the Company will define at least 60% of the jet fuel consumption, and 80% at most.
- These volumes will be decline by 5% monthly until the 12th month.
- For months 13-18, the Company's management will be given the option to hedge up to 25% of the expected jet fuel consumption (without a minimum hedging obligation).
- For months 19-24, the Company's management will be given the option to hedge up to 15% of the expected jet fuel consumption (without a minimum hedging obligation).

Hedging is performed using various financial instruments (price fixing, options and various option structures), using appropriate underlying assets, such as: jet fuel, crude oil or its distillates, all at the discretion of the Company's management.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 19 - Derivative Financial Instruments and Hedge Accounts (continued)

D. Jet fuel derivatives: (continued)

When hedging jet fuel prices, the Company hedged the price of only the raw material from the Company's engagements for the purchase of jet fuel, which also include logistical and other components such as storage and transportation. Since the price of the raw material constitutes the significant and main volatile component in these engagements, the hedging transactions were expected to be effective.

The Market Risk Management Committee has the authority to approve deviations from the policy detailed above, including the scope of the hedging. During 2021, the Company executed few new hedging transactions and in small amounts, due to the uncertainty regarding the rate of recovery and due to credit constraints with the hedging entities and therefore, as of the date of publication of the report, the Company is in excess of the minimum hedging volume. These deviations were reported to the Market Risk Management Committee and the Company's Board of Directors.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 19 - Derivative Financial Instruments and Hedge Accounts (continued)

D. Jet fuel derivatives: (continued)

(3) Quantitative effect of jet fuel hedges on the financial statements

The following is the effect of the jet fuel derivatives on the Company's profit or loss, other comprehensive income, equity and cash flows. The fair value of jet fuel hedging and crude oil hedging transactions is determined using accepted forward exchange rate curves (Level 2 - quoted prices and viewable prices).

	Impact on Profit or Loss for the Period	Impact on Other Comprehensive Income for the Period	Total Impact on Company Equity	Cash Flow in respect of Derivatives	Increase in Asset / Decrease in Liability (Decrease in Asset / Increase in Liability)
	USD thousands	USD thousands	USD thousands	USD thousands	USD thousands
For the Year ended December 31, 2021					
Jet fuel derivatives:					
Balances for jet fuel derivatives as of January 1, 2021		(17,324)			(24,103)
Revaluation of transactions accounted for as hedging instruments	-	30,761	30,761	-	30,761
Receipt for transactions accounted for as hedging instruments	4,439	(4,439)	-	4,439	(4,439)
Early realization of transactions	8,438	(8,438)		9,058 *	(9,058)
Transfer to profit or loss due to lack of effectiveness	(138)	138	-	-	-
Revaluation of transactions not recognized as effective recognized in profit or loss	4,274	-	4,274	-	4,274
Loss from premiums due to expiration of derivatives designated as hedging instruments	(52)	52	-	-	-
Premium payments for hedging instruments	-	-	-	(120)	120
Payment of transaction not recognized as effective	-	-	-	(2,695)	2,695
Total movement in jet fuel derivatives	16,961	18,074	35,035	10,682	24,353
Balances for jet fuel derivatives as of December 31, 2021		750			250
Potential effect of a 15% increase/(decrease) in the price of jet fuel on the fair value of derivatives at the end of the year (in USD millions)	-	1/(0.25)	1/(0.25)	-	1/(0.25)

* In October 2021, the Company made early repayment on all the jet fuel hedging transactions on the same date for the positive amount of approx. USD 9.1 million. The deferred profit in respect of the hedged instruments that were realized, which until the date of realization were recognized in a capital reserve, was recognized in profit or loss on the date of the hedged transactions, the vast majority of which occurred in the fourth quarter of 2021. The balance of the deferred profit that has not yet been transferred to profit or loss (and is expected to be transferred in the first quarter of 2022), which is classified as of December 31, 2021 in a capital reserve in respect of derivatives, is approx. USD 0.6 million.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 19 - Derivative Financial Instruments and Hedge Accounts (continued)

D. Jet fuel derivatives: (continued)

(3) Quantitative effect of jet fuel hedges on the financial statements (continued)

The following is the effect of the jet fuel derivatives on the Company's profit or loss, other comprehensive income, equity and cash flows for 2020.

	<u>Impact on Profit or Loss for the Period</u>	<u>Impact on Other Comprehensive Income for the Period</u>	<u>Total Impact on Company Equity</u>	<u>Cash Flow in respect of Derivatives</u>	<u>Increase in Asset / Decrease in Liability (Decrease in Asset / Increase in Liability)</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
	<u>thousands</u>	<u>thousands</u>	<u>thousands</u>	<u>thousands</u>	<u>thousands</u>
For the Year ended December 31, 2020					
Jet fuel derivatives:					
Balances for jet fuel derivatives as of January 1, 2020		174			2,066
Revaluation of transactions accounted for as hedging instruments	-	(130,571)	(130,571)	-	(130,571)
Payment for transactions accounted for as hedging instruments	(15,072)	15,072	-	(15,072)	15,072
Transfer to profit or loss due to lack of effectiveness	(96,288)	96,288	-	-	-
Revaluation of transactions not recognized as effective recognized in profit or loss	5,983	-	5,983	-	5,983
Payment of transaction not recognized as effective	-	-	-	(83,347)	83,347
Expense on premiums for expired derivatives	(1,713)	1,713	-		
Total movement in jet fuel derivatives	<u>(107,090)</u>	<u>(17,498)</u>	<u>(124,588)</u>	<u>(98,419)</u>	<u>(26,169)</u>
Balances for jet fuel derivatives as of December 31, 2020		<u>(17,324)</u>			<u>(24,103)</u>
Potential effect of a 15% increase/(decrease) in the price of jet fuel on the fair value of derivatives at the end of the year (in USD millions)	<u>-</u>	<u>14.5/(16.0)</u>	<u>14.5/(16.0)</u>	<u>-</u>	<u>14.5/(16.0)</u>

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 19 - Derivative Financial Instruments and Hedge Accounts (continued)

E. Currency risk:

(1) Currency risk in respect of the Company's expenses and liabilities in NIS

The majority of the Company's revenues and expenses are in USD, which constitutes the Company's functional and presentation currency. The Company is exposed to changes in the USD exchange rate against other currencies in which it has income and expenses, mainly in respect of most of the salary expenses paid in Israel in NIS. Therefore, a change in the NIS exchange rate against the USD affects the USD value of Company's expenses in NIS.

The Company also has a balance sheet exposure to the weakening of the USD against the NIS, due to excess financial liabilities over financial assets (mainly due to liabilities for employee benefits (see Note 15 and, to a lesser extent, for lease liabilities for properties in Israel) denominated in currencies other than the USD. A 10% decrease in the exchange rate results in an expense of approx. USD 20.6 million, due to the revaluation of balances in the statements of financial position, as stated. The Company periodically examines the need for the use of derivative instruments to reduce exposure to currency risks.

The Company's policy allows it to hedge its expected cash flow exposure to the NIS, up to 75% for the next 12 months. In addition, the hedging policy was defined in a manner that set minimum hedging rates for hedging the expected cash flow exposure to the NIS: 40% for the next 3 months, 30% for months 4-6 and 15% for months 7-9, with monthly rolling.

As of December 31, 2021, the Company has not hedged the expected cash flow exposure to the NIS in 2022, due in part to the uncertainty regarding the exact amount and timing of the exposure and due to credit limitations with the hedging entities. The deviation from the minimum requirement was reported to the Market Risk Management Committee and the Company's Board of Directors.

(2) Currency risk in respect of loans taken in JPY

The company has several loans in which part of its financial debt is denominated in JPY. The total debt denominated in JPY as of December 31, 2021 amounts to approx. USD 88 million. The Company carried out a transaction to swap cash flows in order to determine the price of the JPY, for a debt of approx. USD 33 million (as of December 31, 2021) out of the above amount. In this context, a 10% decrease in the exchange rate results in an expense of approx. USD 4 million, due to the revaluation of the financial debt that is not hedged.

(3) Quantitative effect of the derivatives on the financial statements

The following is the effect of the NIS-USD exchange rate derivatives on the Company's profit or loss, other comprehensive income, equity and cash flows. The fair value of the foreign currency hedging transactions is determined using the foreign currency exchange rate as of the date of the statements of financial position and accepted forward exchange rate curves (Level 2 - quoted prices and viewable prices).

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 19 - Derivative Financial Instruments and Hedge Accounts (continued)

E. Currency risk: (continued)

	Impact on Profit or Loss for the Period USD thousands	Impact on Other Comprehensive Income for the Period אלפי דולר	Total Impact on Company Equity אלפי דולר	Cash Flow in respect of Derivatives אלפי דולר	Increase in Asset / Decrease in Liability (Decrease in Asset / Increase in Liability) USD thousands
For the Year ended December 31, 2021					
Exchange rate derivatives:					
Balances for exchange rate derivatives as of January 1, 2021		(5,420)			(5,258)
Revaluation of loan hedging transactions in JPY	(3,271)	1,416	(1,855)	-	(1,855)
Completion of interest for hedging loans in JPY	(946)	-	(946)	-	(946)
Total movement in exchange rate derivatives	(4,217)	1,416	(2,800)	0	(2,800)
Balances for exchange rate derivatives as of December 31, 2021		(4,004)			(8,058)
Potential effect of a 10% decrease/(increase) in the exchange rate on the fair value of derivatives at the end of the year (in USD millions)	-	4/(3.6)	4/(3.6)	-	4/(3.6)
For the Year ended December 31, 2020					
Exchange rate derivatives:					
Balances for exchange rate derivatives as of January 1, 2020		(1,113)			(1,557)
Revaluation of transactions accounted for as hedging instruments	-	(304)	(304)	-	(304)
Receipt for transactions accounted for as hedging instruments	828	(828)	-	828	(828)
Revaluation of loan hedging transactions in JPY	1,573	(3,277)	(1,704)	-	(1,704)
Completion of interest for hedging loans in JPY	(865)	-	(865)	-	(865)
Loss from premiums due to expiration of derivatives designated as hedging instruments	(102)	102	-	-	-
Total movement in exchange rate derivatives	1,434	(4,307)	(2,873)	828	(3,701)
Balances for exchange rate derivatives as of December 31, 2020		(5,420)			(5,258)
Potential effect of a 10% decrease/(increase) in the exchange rate on the fair value of derivatives at the end of the year (in USD millions)	-	4.3/(3.5)	4.3/(3.5)	-	4.3/(3.5)

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 19 - Derivative Financial Instruments and Hedge Accounts (continued)

F. Interest risk:

(1) Description of the risk and the quantitative effect

The Company is exposed to a cash flow risk in respect of interest stemming from loans at variable interest rates. The risk is managed by the Company by maintaining an appropriate ratio between variable interest rate loans and fixed rate loans, as well as by using interest derivatives. Hedging operations are evaluated on an ongoing basis in order to adapt them to forecasts regarding the interest rate and the desired hedged risk. An optimal hedging strategy is ensured by adjusting the mix of the Company's loans and making "back-to-back" protections against the repayment schedules of existing loans.

In accordance with the Company's interest rate hedging policy, the Company partially hedges its cash flow exposure to the Libor interest rate (exposure stemming from the Company's loans) through interest rate hedging transactions or by taking fixed rate loans. The scope of the actual hedging (i.e. the total loans that are at a fixed interest rate or loans with a variable interest rate that are hedged through interest rate hedging transactions) as of the date of the report is approx. 70% of the financing portfolio.

The total financing expenses recognized by the Company in 2021, without the effect of hedging, in respect of variable interest loans, is approx. USD 20 million. If the interest rate had changed by 50%, the expense would have increased by approx. USD 0.7 million, and after the effect of the hedging as detailed below, it would have increased by approx. 0.3 million.

In the context of the Corona crisis, there has been a decline in interest rates in the markets. As a result, the negative fair value of the interest rate transactions as of December 31, 2021 amounted to approx. USD 10.9 million. Some of the framework agreements with the hedging entities determined conditions in which the Company is required to deposit collateral for the fair value of the interest derivatives, which amounted to approx. USD 5.6 million as of December 31, 2021 (this amount also includes collateral against a JPY hedging transaction in one of the loans, as explained in the currency risk section above).

The following is the effect of interest derivatives on the Company's profit or loss, other comprehensive income, equity and cash flows. The fair value of interest rate hedging transactions as of the date of the statements of financial position was determined using acceptable interest rate curves (Level 2).

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 19 - Derivative Financial Instruments and Hedge Accounts (continued)

F. Interest risk (continued)

	Impact on Profit or Loss for the Period <u>USD</u> thousands	Impact on Other Comprehensive Income for the Period <u>USD</u> thousands	Total Impact on Company Equity <u>USD</u> thousands	Cash Flow in respect of Derivatives <u>USD</u> thousands	Increase in Asset / Decrease in Liability (Decrease in Asset / Increase in Liability) <u>USD</u> thousands
For the Year ended December 31, 2021					
Interest rate derivatives:					
Balances for interest rate derivatives as of January 1, 2021		(36,780)			(36,780)
Revaluation of transactions accounted for as hedging instruments	-	16,384	16,384	-	16,384
Payment for transactions accounted for as hedging instruments	(9,527)	9,527	-	(9,527)	9,527
Total movement in interest rate derivatives	(9,527)	25,911	16,384	(9,527)	25,911
Balances for interest rate derivatives as of December 31, 2021		<u>(10,869)</u>			<u>(10,869)</u>
Potential effect of a 50% increase/(decrease) in the interest rate on the fair value of derivatives at the end of the year (in USD millions)	-	<u>2.6/(2.2)</u>	<u>2.6/(2.2)</u>	-	<u>2.6/(2.2)</u>
For the Year ended December 31, 2020					
Interest rate derivatives:					
Balances for interest rate derivatives as of January 1, 2020		(3,131)			(3,131)
Revaluation of transactions accounted for as hedging instruments	-	(38,589)	(38,589)	-	(38,589)
Payment for transactions accounted for as hedging instruments	(4,940)	4,940	-	(4,940)	4,940
Total movement in interest rate derivatives	(4,940)	(33,649)	(38,589)	(4,940)	(33,649)
Balances for interest rate derivatives as of December 31, 2020		<u>(36,780)</u>			<u>(36,780)</u>
Potential effect of a 50% increase/(decrease) in the interest rate on the fair value of derivatives at the end of the year (in USD millions)	-	<u>3.8/(3.8)</u>	<u>3.8/(3.8)</u>	-	<u>3.8/(3.8)</u>

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 19 - Derivative Financial Instruments and Hedge Accounts (continued)

F. Interest risk (continued)

(2) Management of the change in the Libor interest rate

The Company's loans at variable interest rates are USD loans linked to the Libor USD interest rate. The balance of the loans as of the date of the report is approx. USD 1.1 billion for the years 2022-2030. Approx. USD 1 billion of this amount is at variable interest rates (of which - against approx. USD 613 million there are IRS hedging transactions).

The global banking and finance system is expected to stop using Libor interest rates and move to using SOFR interest rates. As for the USD, it was decided in December 2020 to extend the publication of Libor interest rates until the end of June 2023. As of the date of the report, the Company is not able to estimate the effects of the transition from the Libor interest rate to SOFR interest rate and has not yet begun negotiations to convert the existing loan agreements and the existing hedging transactions.

G. Liquidity risk:

The amounts and predicted payment dates for derivatives are as follows, according to the market conditions predicted for December 31, 2021.

	2022	2023	2024	2025	2026 onwards	Total
	USD millions					
Jet fuel hedging transactions	(0.2)					(0.2)
Interest rate hedging transactions	7.2	2.6	0.6	0.3	0.3	11
Exchange rate hedging transactions					8.1	8.1
Total payment in respect of derivatives	7.0	2.6	0.6	0.3	8.4	18.9

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 20 - Details of Statements of Profit or Loss Items

A. Operating revenue:

	For the Year ended December 31		
	2021	2020	2019
	USD	USD	USD
	thousands	thousands	thousands
Revenues from passenger aircraft:			
Revenues from passengers on the Company's scheduled flights	530,530	314,440	1,887,876
Revenues from cargo transported in passenger aircraft	149,270	164,378	97,417
Revenues from San D'or flights	9,694	8,000	93,225
Total revenues from passenger aircraft	689,494	486,818	2,078,518
Revenues from cargo transported in cargo aircraft (including Fifth Freedom)	128,469	99,833	35,018
Total revenues from flying passengers and cargo transport (*)	817,963	586,651	2,113,536
Other income (1)	39,204	36,424	64,461
	857,167	623,075	2,177,997

(*) The following is a breakdown of the Company's revenues from passenger and cargo flights by geographic areas:

	For the Year ended December 31		
	2021	2020	2019
	USD	USD	USD
	thousands	thousands	thousands
America	351,077	208,240	790,418
Europe	275,044	204,152	1,035,675
Asia and Africa	165,261	150,798	287,443
Cargo transport in the framework of the Fifth Freedom (2)	26,581	23,461	-
Total revenues from flying passengers and cargo transport	817,963	586,651	2,113,536

(1) Other revenues mainly include income from sales of Duty-Free products, flight food services, maintenance services for other entities, Frequent Flyer Club membership fees, unloading and loading services, etc.

(2) Cargo transport by the Company between two foreign countries.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 20 - Details of Statements of Profit or Loss Items (continued)

B. Operating expenses:

	For the Year ended December 31		
	2021	2020	2019
	USD thousands	USD thousands	USD thousands
Fuel	186,455	131,993	479,803
Salaries and related expenses	222,990	192,702	488,340
Airport fees and services	117,784	82,187	207,956
Maintenance of aircraft, flight equipment and ground equipment	32,731	38,785	90,493
Air passage and air communication	38,025	28,569	85,284
Depreciation of owned equipment	108,544	111,546	139,443
Depreciation of right-of-use asset	103,184	109,154	92,685
Aircraft and engine lease fees	60,465	34,284	45,399
Food and provisions	28,680	20,604	61,764
Air crew expenses	25,031	17,944	66,967
Security expense, less State participation (1)	2,442	2,221	4,303
Other operating expenses	34,146	30,413	71,167
Total	960,477	800,402	1,833,604

- (1) Participation in security expenses – The rate of the State's participation in the Company's security expenses is 97.5%. The agreement between the Company and the State of Israel, which regulates the activities of the Israeli Aviation Security System, has been extended until December 31, 2022 or until the signing of a new agreement between the Israeli airlines and the Ministry of Finance, whichever is earlier, as long as the Company continues to provide aviation security services to Israeli airlines according to the instructions and guidelines of the General Security Service. In November 2021, the Company received a total of approx. USD 20 million and after the date of the statements of financial position an additional amount of approx. USD 20 million through the advancement of participation in the security expenses for 2022.

C. Sales expenses:

	For the Year ended December 31		
	2021	2020	2019
	USD thousands	USD thousands	USD thousands
Commissions to agents and credit card companies	39,000	22,458	94,794
Salaries and related expenses	24,368	21,465	50,448
Advertising and public relations	8,811	6,421	25,100
Distribution systems expenses	8,987	2,669	25,633
Other sales expenses	7,195	7,697	17,589
Total	88,361	60,710	213,564

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 20 - Details of Statements of Profit or Loss Items (continued)

D. General and administrative expenses:

	For the Year ended December 31		
	2021	2020	2019
	USD thousands	USD thousands	USD thousands
Salaries and related expenses	41,083	39,757	68,134
Professional services	11,152	13,044	7,484
Communications	2,303	2,691	1,891
Rental fees and office maintenance	3,571	3,048	6,410
Insurance (1)	8,887	6,369	2,410
Depreciation of owned equipment	13,619	16,813	15,590
Depreciation of right-of-use asset	2,656	2,894	3,573
Other	16,567	17,380	33,347
Total	99,838	101,996	138,839

(1) The increase in 2021 is mainly in respect of directors' and officers' professional liability in the context of the Company's dealing with the consequences of the Corona crisis, as detailed in Note 1.B above.

E. Other expenses (income), net:

	For the Year ended December 31		
	2021	2020	2019
	USD thousands	USD thousands	USD thousands
Expenses in respect of employee retirement plans, net (see Note 15.I)	16,486	45,441	701
Depreciation of value of aircraft to fair value, less realization costs, see Note 10.C	43,466	-	-
Revenue from government grants (see Notes 13.A and 14.H)	(11,865)	-	-
Capital gain from realization of fixed assets	(1,216)	(12,036)	(13,190)
Cancellation of provision in respect of a State claim	-	(9,557)	-
Capital loss from sale of Maman	-	2,858	-
Other (mainly waiver of rental fees for Corona discounts - see Note 11.E)	(17,939)	(2,439)	(9)
Total	28,932	24,267	(12,498)

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 20 - Details of Statements of Profit or Loss Items (continued)

F. Financing expenses:

	For the Year ended December 31		
	2021	2020	2019
	USD	USD	USD
	thousands	thousands	thousands
Ineffective jet fuel hedging expenses	(4,136)	91,460	-
Interest in respect of loans	43,663	44,299	37,673
Interest for lease liabilities	49,001	48,654	43,631
Interest expenses in respect of the advance payment for the flights of aviation security system personnel, see Note 13.A	14,779	-	-
Cost of interest on actuarial liabilities	2,972	2,344	1,890
Exchange rate differences and other financing expenses	2,853	10,030	5,007
Total	109,132	196,787	88,201

G. Financing income:

	For the Year ended December 31		
	2021	2020	2019
	USD	USD	USD
	thousands	thousands	thousands
Interest in respect of short-term bank deposits	172	331	2,746
Exchange rate differences and other financing expenses	6,232	-	2,561
Total	6,404	331	5,307

Note 21 - Subsidiaries

A. Details of companies under the Company's ownership:

(1) San D'or International Airlines Ltd. ("San D'or"):

The Group's charter flights are operated through San D'or (a company wholly owned by the Company). San D'or operates as a tourism organizer for wholesalers and individuals, and markets scheduled and charter flights, either by leasing entire aircraft capacity to a third party, or partial aircraft capacity to a number of partners at pre-agreed prices, or by direct sale.

Since 2011, San D'or has been operating as a tourism organizer, maintaining the San D'or brand on scheduled and charter flights marketed by San D'or and operated by the Company (on mid-week days) and by other airlines (on weekend and holiday flights).

Due to the Corona crisis, San D'or has taken steps to adjust its cash flow and operating expenses to the volume of activity, including placing most employees on unpaid leave, canceling wet lease agreements for three 737-800 aircraft, deferring payments to suppliers and more.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 21 - Subsidiaries (continued)

A. Details of companies under the Company's ownership: (continued)

(2) Tamam Aircraft Food Industries (Ben Gurion Airport) Ltd. ("Tamam"):

Tamam (a company wholly owned by the Company) is mainly engaged in the production and supply of ready-made kosher meals to airlines. In addition, Tamam provides, among other things, catering services to institutions. Its factory and offices are located at Ben Gurion Airport. The Company is Tamam's main customer.

In December 2016, Tamam signed an agreement with the Israel Airports Authority for a permit for the production, transportation, unloading, loading and delivery of food, drink and related products for aircraft at Ben Gurion Airport, following Tamam's win in August 2016 in a repeat tender issued by the Israel Airports Authority for up to 3 permits for the production, transportation, unloading, loading and delivery of food and related products for aircraft (the "Tender"). According to the terms of the tender, Tamam will build and operate a structure, replacing the existing structure, to supply food to aircraft for approx. 25 years. The investment in the construction of the above structure, its maintenance and the annual authorization fee that Tamam will be required to pay to the Israel Airports Authority are not in substantial amounts for the Company.

In accordance with the agreement, Tamam was required to complete the construction of the structure by the end of 2020. It should be noted that in view of the consequences of the Corona crisis on Tamam's activities, Tamam did not proceed with the construction process and the construction project was frozen. Tamam applied to the Israel Airports Authority requesting that at the end of the crisis, the parties will discuss the continuation of the project, and there is no certainty that the project will be completed.

(3) Borenstein Caterers Inc. (USA) - ("Borenstein"):

Borenstein (a company wholly owned by the Company), registered in the United States and operating near the Kennedy Airport in New York, is manufacturing and supplying kosher ready-made meals to airlines and other institutions. The Company is Borenstein's main customer.

(4) Superstar Holidays Limited (England) - ("Superstar"):

Superstar (a company wholly owned by the Company) is a tourism wholesaler that markets tour packages in the UK to travel agents and passengers and sells airline tickets at discounted prices on the Company's routes. Superstar has activity in several other countries. Due to the crisis, the Company's activity in 2021 is significantly reduced.

(5) Katit Ltd. ("Katit"):

Katit (a company wholly owned by the Company) operates, on normal business days, a number of restaurants for the Company's employees at Ben Gurion Airport, and the catering services in the King David Lounge at Ben Gurion Airport.

(6) Cockpit Innovation Ltd. ("Cockpit"):

Cockpit was established in 2016 by the Company, and is the branch of the Company's activity as an incubator for investment ventures related to aviation, both in terms of financial support and in terms of cooperation with the Company to promote ventures. The Company holds approx. 80.9% of Cockpit shares.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 21 - Subsidiaries (continued)

B. Signing a memorandum of understanding for the acquisition of Arkia

On February 3, 2022, subsequent to the date of the statements of financial position, a non-binding memorandum of understanding was signed between El Al Israel Airways Ltd. ("the Company" or "El Al") and Arkia Israeli Airlines Ltd. ("Arkia") and its controlling shareholder (Arkia Airways Holdings and Aviation Services Ltd. ("Arkia Holdings")), prior to signing a detailed agreement (the "Binding Agreement") for the purchase of all Arkia shares in consideration for the allotment of the Company's securities to Arkia shareholders.

Arkia is an Israeli airline that operates domestic and international flights. The main shareholders in Arkia are Arkia Holdings and TUT – Aviation and Tourism Workers Corporation Ltd. ("TUT").

The following is a summary of the memorandum of understanding:

1. Description of the transaction: According to the terms to be agreed between the parties in the binding agreement, on the date of completion of the transaction the Company will purchase all Arkia shares from Arkia shareholders when they are clean and free ("the shares sold"), so that Arkia becomes a wholly owned subsidiary of El Al, and in consideration, the Company will allot to the Arkia shareholders 10% of the issued and paid-up share capital of the Company and 10% of the amount of options allotted in the Company after the allotment (based on the amount of shares and options existing at the time of signing the binding agreement). The Memorandum of Understanding also includes provisions regarding the adjustment of the number of securities to be allotted to Arkia shareholders so that Arkia shareholders may be allotted shares and additional options so that their holding reaches up to 14% of the Company's issued and paid-up share capital and of the number of options allotted in the Company, respectively, depending on the share price of the Company in the period ended seven days after the date of publication of the financial statements as of June 30, 2023) ("the adjustment date") and its commencement 135 days before that date, all subject to the fulfillment of the conditions for completion of the transaction as detailed in Section 6 below. TUT may choose whether to join the adjustment mechanism, and in the case it chooses, under the binding agreement, not to join the adjustment mechanism, it will be allotted Company securities according to its relative share, corresponding to a total of 12% of the Company's securities (instead of 10%).

The Company will also allocate options for the purchase of the Company's shares to certain officers in the Company and in Arkia, to be determined by the parties in the binding agreement.

2. Commitment for non-execution of securities transactions: No further restrictions will apply to Arkia shareholders beyond the restrictions set forth in provisions of the law on transactions in the Company's securities, except for transactions in the Company's securities in the period of 135 days preceding the adjustment date.

3. Investments in the Company and in Arkia: From the date of signing the Memorandum of Understanding until the completion of the transaction, all investments by Arkia shareholders will be made through inferior shareholder loans, which will be treated in the same way as the loans that the Company's controlling shareholder transferred to the Company in November 2021, and if the Company's controlling shareholder will convert the loans to capital, the Arkia shareholder loans will be converted into the Company's share capital on the same terms. In the event that Arkia's shareholder loan is not converted into the Company's shares (due to the Company's controlling shareholder not converting its loans into capital), a conversion mechanism for the Company's shares will be established in the binding agreement between the parties. It was clarified that shares allotted to Arkia shareholders resulting from the conversion of a loan to Arkia will not be taken into account for the purpose of calculating the consideration to which the shareholders are entitled in accordance with the principles of the Memorandum of Understanding.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 21 - Subsidiaries (continued)

B. Signing a memorandum of understanding for the acquisition of Arkia (continued):

4. Schedules: The parties will make reasonable efforts to complete due diligence within 30 business days of opening the "Information Room" and receiving the information requested by the other party, and approve a binding agreement and obtain the necessary approvals required by the Company for entering into an agreement 30 business days after completion of due diligence.

5. Labor relations: The binding agreement will not be signed and no transaction will be made between the parties, until after collective agreements have been signed between the Histadrut and the Company and Arkia in relation to the employees of the two companies.

6. Conditions for completion of the transaction: Completion of the transaction is conditional on the fulfillment of several conditions, including: (1) completion of the due diligence to the satisfaction of the parties; (2) receipt of the approvals required for the approval of the transaction by the relevant bodies of each of the parties; (3) entering into a binding agreement and other agreements that may be required; (4) receipt of all required regulatory approvals (including, approval of the Stock Exchange, Competition Authority, Ministry of Finance, Ministry of Transportation, Civil Aviation Authority, the holder of the special state share in the Company), and any receipt of approvals from third parties as required.

7. Completion of the transaction: The parties will make efforts to complete the transaction within 90 days from the date of signing the binding agreement. If the transaction is not completed within 90 days, plus a 60-day extension, the parties will be entitled to terminate the engagement in the binding agreement.

8. Actions after completion of the transaction: The memorandum of understanding includes instructions for El Al and Arkia activities after completion of the transaction as separate brands, including maintaining the separate air crews and their maintenance and services to be provided to the two brands by each of the brands. In addition, the binding agreement will establish a business plan for Arkia as a separate brand.

9. Additional provisions from the Memorandum of Understanding: In addition to the above, the Memorandum of Principles includes provisions relating to the binding agreement, including binding terms regarding confidentiality, no-shop and exclusivity, and jurisdiction, as well as other provisions as accepted in such agreements.

Liabilities of the Company's controlling shareholder

In addition, at the same time as signing the Memorandum of Understanding, Kanfei Nesharim Aviation Ltd. (the "controlling shareholder of El Al") will sign an undertaking that, subject to the signing of the binding agreement between the Company, Arkia and the shareholders of Arkia, the controlling shareholder of El Al will undertake the following obligations:

A. As long as the Arkia shareholders hold more than 7.5% of the Company's share capital, the controlling shareholder in El Al will vote at the general meeting in favor of a candidate for office on the Company's Board of Directors to be proposed by the Arkia shareholders.

B. Not to carry out transactions in the Company's securities for 135 days preceding the adjustment date, as defined above.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 21 - Subsidiaries (continued)

B. Signing a memorandum of understanding for the acquisition of Arkia (continued):

C. To assist Arkia shareholders, as much as possible and as long as this has no tax implications for the El Al controlling shareholder, to hold the Company's securities, immediately after the completion of the transaction, so that the restriction provisions will not apply in relation to some of the Company's securities allocated to Arkia shareholders, by restricting the Company's securities held by the El Al controlling shareholder.

It should be emphasized that this is a non-binding Memorandum of Understanding and there is no certainty that the Memorandum of Understanding or the binding agreement will be signed, in general or under the conditions detailed above, or that the preconditions for the transaction will be met or that the transaction will be completed. In addition, the Company is unable to assess when the transaction will be completed (if at all) and if it will be completed, and there may be changes in the terms of the transaction compared to what is stated in the Memorandum of Understanding and in this immediate report.

C. Transfer of the frequent flyer club activities to a subsidiary of the Company

In accordance with the assistance agreement between the Company and the Government of Israel and Kanfei Nesharim Aviation Ltd. dated November 22, 2021, as detailed in Note 1.B(8) and in accordance with the decision of the Board of Directors dated January 17, 2022, subsequent to the date of the statements of financial position, the frequent flyer club activity, including its assets, transferred to a wholly owned subsidiary of the Company, all in accordance with the activity needs of the club and the Company, including the development of the club's business and the recruitment of investors.

D. Translation of financial statements of investees whose functional currency is different from the USD:

For the purpose of presenting the consolidated financial statements, the assets and liabilities of those companies are presented in USD according to the exchange rates in effect at the end of the reporting period, and income and expenses items are translated according to the average exchange rates during the reporting period. The relevant translation differences are recognized in other comprehensive income as part of the "exchange rate differences for translation of foreign activities", and will be classified to profit or loss on the date of realization of the foreign activity for which the translation differences were created.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 21 - Subsidiaries (continued)

E. Significant transactions and engagements with subsidiaries:

As stated in Note 2.A, the Company did not include separate financial information in the periodic reports for the years, in accordance with the provisions of Regulation 9.C of the Securities Regulations (Periodic and Immediate Reports), 1970, due to the insignificance of the additional information.

The Company has agreements with its investee companies as detailed below:

<u>Company</u>	<u>Type of Activity</u>	<u>Scope of Activity</u>	
		<u>For the Year ended</u>	
		<u>December 31</u>	
		<u>2021</u>	<u>2020</u>
		<u>USD</u>	<u>USD</u>
		<u>thousands</u>	<u>thousands</u>
San D'or	Leasing of aircraft and providing ancillary services	436	4,343
Tamam	Purchase of food for the Company's flights from Ben Gurion Airport	10,967	6,838
Borenstein	Purchase of food for the Company's flights from New York	4,698	2,042
Superstar	Sale of airline tickets and ground arrangements	66	745
Katit	Catering for employees and food services in the King David Lounge in Terminal 3	1,314	1,863

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 22 - Transactions with Interested Parties and Related Parties

A. The Company's controlling shareholder:

Starting in September 2020, Mr. Eli Zechariah Rosenberg, through Kanfei Nesharim Aviation Ltd. ("Kanfei Nesharim"), is the Company's controlling shareholder. On October 2, 2020, the Company received the consent of the holder of the special state share, that Mr. Rosenberg acquire and hold, through Kanfei Nesharim, Company shares at a rate of 40% or more of the Company's issued share capital and at a rate that gives him and Kanfei Nesharim control of the Company. On May 18, 2021, consent was obtained from the holder of the special state share (replacing the agreement dated October 2, 2020) for Mr. Eli Zechariah Rosenberg and his father, Mr. Kenneth Neil Rosenberg, to acquire and hold, through Kanfei Nesharim, Company shares, including at a rate that gives them, or one of them, and Kanfei Nesharim control of the Company. As of December 31, 2021, Kanfei Nesharim holds approximately 39.66% of the Company's shares.

The following is a general description of the transactions with Kanfei Nesharim and with entities in which the Company's controlling shareholder, on the date of the report, has a personal interest, their characteristics and scope:

B. Transactions with related parties and other interested parties:

(1) Transactions with the controlling shareholder or his relative:

- a) On July 26, 2021 and on July 28, 2021, the Audit and Remuneration Committee and the Company's Board of Directors approved, respectively, entering into a directors' and officers' insurance policy for the period from August 1, 2021 to July 31, 2022, in the Company, its subsidiaries and its related companies, the Company's directors and officers, as they will be from time to time, and the terms of the insurance policy are the same in relation to all the Company's officers, including officers who are a controlling shareholder of the Company, as they will be from time to time. The annual premium is at market conditions, and the liability limits in the policy are USD 80,000,000 million.

General and administrative expenses for the years 2021, 2020 and 2019 included expenses in respect of directors' and officers' insurance in the amount of approx. USD 7,446 thousand, approx. USD 4,596 thousand and approx. USD 87 thousand, respectively. In addition, in view of the fact that in 2021 the Company paid approx. USD 10,108 thousand for directors' and officers' insurance for the period ended July 31, 2022, the Company recognizes prepaid expenses for directors' insurance in the amount of approx. USD 2,662 thousand.

- b) All of the Company's directors have been granted letters of indemnity, including directors who are relatives of the controlling shareholder, in a version approved on November 29, 2017 by the General Meeting of the Company's shareholders. On December 3, 2019 and on August 26, 2020, as part of the approval of the remuneration policy for the Company's officers for the years 2020-2022, the General Meeting approved the remuneration to which members of the Company's Board of Directors are entitled for an additional three years, including directors who are controlling shareholders of the Company. It should be noted that the external and independent directors are entitled to remuneration for participation in meetings and annual remuneration, as detailed in the remuneration policy, and are not entitled to benefits on flight tickets. It should be noted that for the purpose of calculating the

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 22 - Transactions with Interested Parties and Related Parties (continued)

B. Transactions with related parties and other interested parties: (continued)

(1) Transactions with the controlling shareholder or his relative: (continued)

value of the flight ticket benefits detailed above, the value of a flight ticket is calculated according to its value for tax purposes, based on the accepted rates in the Company. On May 20, 2021, after receiving the approval of the Audit Committee and Remuneration on May 18, 2021, the Company's Board of Directors approved that the remuneration of the directors, including the Company's independent directors (excluding external directors, for whom there is no change in remuneration for their entire term) will be according to the "maximum amount" appearing in the Companies Regulations (Rules regarding Remuneration and Expenses for External Directors), 2000, instead of the "fixed amount" according to the Company's remuneration policy, in respect of participation in meetings of the Company's Board of Directors and/or one of its committees starting March 1, 2021, and in respect of the annual remuneration starting the first quarter of 2021.

On December 19, 2021 and December 21, 2021, the Audit and Remuneration Committee and the Company's Board of Directors approved, respectively, the terms of office and employment of the Company's Deputy Chairman, Mr. Kenneth Neil Rosenberg, who is the father of the controlling shareholder, and Mr. Darrell Hagler, regarding their eligibility for flight tickets, in accordance with the Company's remuneration policy, as of December 21, 2021, and the term of office and employment of Mr. Amikam Ben Zvi, regarding his eligibility for flight tickets, in accordance with the remuneration policy, for the period he served as the Company's Deputy Chairman from October 20, 2020 to October 5, 2021, the end of the period in which he served as Acting Chairman of the Company's Board of Directors.

For the reduction in the remuneration of the directors in view of the Corona crisis, see Note 1 to the Company's financial statements.

(2) Transactions with the controlling shareholder that are to the credit of the Company

- a. On December 8, 2020, after receiving the approval of the Audit Committee on December 6, 2020, the Company's Board of Directors approved the Company's engagement in an agreement for the receipt of a loan in the total amount of USD 10 million (the "Loan") on behalf of the controlling shareholder - Kanfei Nesharim, as part of a "qualifying transaction" according to Regulation 1(2) of the Companies Regulations (Easements in Transactions with Interested Parties), 2000 (the "**Easement Regulations**"). The main terms of the loan are as follows: (a) The loan amount: USD 10 million, not interest-bearing and not linked to any index; (b) The loan period: The final repayment date of the loan is 30 days (or another period on which the parties will agree in writing); (c) Collateral: Repayment of the loan is not guaranteed by any collateral or liens against Kanfei Nesharim ; (d) Additional provisions: The loan agreement includes grounds for immediate repayment as is customary in such agreements. The validity of this loan has been extended from time to time on January 14, 2021, January 28, 2021 and February 8, 2021.

During February 2021, the Company repaid the loan.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 22 - Transactions with Interested Parties and Related Parties (continued)

B. Transactions with related parties and other interested parties: (continued)

(2) Transactions with the controlling shareholder that are to the credit of the Company (continued)

b. On November 22, 2021, the Company signed an agreement for assistance with the Government of Israel and with Kanfei Nesharim (the “**November 2021 Agreement**”), and as a derivative thereof, it signed an agreement for the provision of loans by Kanfei Nesharim - the Company’s controlling shareholder. For further information regarding the November 2021 Agreement, see Note 1.B.(6) to the financial statements. On November 14, 2021 and November 21, 2021, the Company’s Audit Committee and Board of Directors, respectively, approved the November 2021 Agreement as stated and receipt of the controlling shareholder loans, and determined that they are transactions for the good of the Company, all in accordance with Regulation 1(2) of the Easement Regulations.

The controlling shareholder loans, as detailed in the November 2021 Agreement, are provided without consideration from the Company, do not bear any interest or linkage and are not guaranteed by any collateral.

c. On January 23, 2022, the Company signed an agreement for additional assistance with the Government of Israel and with Kanfei Nesharim (the “**2022 Agreement**”), and as a derivative thereof, it signed an agreement for the provision of loans to the Company by Kanfei Nesharim. For further information regarding the 2022 Agreement, see Note 1.B.(7) to the financial statements. At the meetings of the Company’s Audit Committee and Board of Directors held on January 16, 2022 and January 17, 2022, respectively, the Company’s Audit Committee and Board of Directors approved the 2022 Agreement and receipt of the shareholder loans, and determined that they are transactions for the good of the Company, all in accordance with Regulation 1(2) of the Easement Regulations. The shareholder loans on behalf of the controlling shareholder, as specified in the 2022 Agreement and in the Shareholder Loan Agreement, are given without consideration from the Company, do not bear any interest or linkage and are not guaranteed with any collateral.

As of the date of the financial statements, the controlling shareholder has provided the Company with a total amount of approx. 75 million by virtue of the agreements described above.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 22 - Transactions with Interested Parties and Related Parties (continued)

B. Transactions with related parties and other interested parties: (continued)

(3) Negligible transactions with the controlling shareholder:

“Negligible transaction”:

Notwithstanding the foregoing, separate transactions that form part of the same engagement or ongoing transactions or very similar transactions that are made frequently and repeatedly will be examined as a single transaction on an annual calendar basis.

For the examination of the classification as a negligible transaction and in such cases, the cumulative amount of the engagement during a calendar year may not exceed NIS 1 million.

During the year of the report and up to the date of its submission, the Company had transactions with entities and parties in which the Company's controlling shareholder has a personal interest and which are classified as "negligible transactions", of the following types and characteristics:

Engagements in consulting agreements with consultants in which Mr. Kenneth Neil Rosenberg, a Company director and the father of the Company's controlling shareholder, has a personal interest and an engagement to perform PCR tests for the air crew.

The above engagements were approved by the Audit and Remuneration Committee and by the Board of Directors as "negligible transactions", after being classified by the Audit and Remuneration Committee as non-exceptional engagements in accordance with the criteria detailed above.

(3) Transactions with interested parties:

(A) non-exceptional transactions with interested parties:

The Company has engagements in which interested parties in the company have a personal interest and which are not exceptional, as described below. It should be noted that all of these engagements are not significant in relation to the Company's income and/or expenses, and that the amount of these engagements is included in the following financial data: Provision of benefits on flight tickets according to a business customer agreement.

The Company has an insignificant contract with the Harel Insurance Group regarding dental insurance for the Company's employees, which is not included in the financial data. In addition, the Company has engagements with the Harel Insurance Group in connection with the following types of insurance, which are included in the financial data: elementary insurance for the Company, insurance for the construction of the Tamam structure, employer liability insurance and professional liability, travel insurance for on the job travel of Company employees and health insurance for Company employees stationed abroad and their families.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 22 - Transactions with Interested Parties and Related Parties (continued)

B. Transactions with related parties and other interested parties: (continued)

a. Employment of the Chairman of the Company's Board of Directors

Mr. Amikam Ben Zvi has been serving as the Chairman of the Company's Board of Directors since October 5, 2021. As of the date of the financial statements, personal terms of office and employment have not yet been approved as Active Chairman of the Board, and Mr. Ben Zvi is entitled to directors' remuneration like all the Company's directors. For information regarding directors' remuneration, see Section B.1.C. above.

Employment agreement of the former Chairman of the Company's Board of Directors

Mr. David Brodet served as Chairman of the Company's Board of Directors from October 20, 2020 to May 31, 2021.

On April 19, 2021, the Company's shareholders' meeting decided to approve the terms of Mr. Brodet's service as Active Chairman of the Company's Board of Directors. Mr. Brodet provided Chairman of the Board of Directors services to the Company in a 70% position (approx. 130 monthly hours of management services).

For his service, Mr. Brodet was entitled to a monthly salary of NIS 50,500 and contributions to executive insurance and a study fund as acceptable in the Company and 16 days of vacation per calendar year. In addition, Mr. Brodet was entitled to transportation services from his home to the office and to every meeting where he is required as part of his position.

Mr. Brodet was also entitled to certain benefits on flight tickets from the Company, for himself and his family.

b. Employment agreement for the Company CEO

Mr. Avigal Soreq has been serving as the Company's CEO since January 22, 2021.

On April 19, 2021, the Company's shareholders' meeting approved the terms of Mr. Soreq's service and employment as Company CEO. The employment agreement between Mr. Soreq and the Company is effective from January 22, 2021 for an indefinite period during which he will serve as the Company CEO on a full-time basis (the "**employment agreement**"). Each party may terminate the agreement with advance notice of at least 6 months. Mr. Soreq is entitled to a total gross monthly salary in the amount of NIS 100,500 (the "**base salary**"). The base salary is linked to a rise in the consumer price index. For the reduction in Mr. Soreq's salary in view of the Corona crisis, see Note 1 to the financial statements. Mr. Soreq is entitled to an annual bonus at a rate of 2% of the Company's annual profit (before tax) and no more than a total of NIS 3 million, in accordance with the terms, restrictions and provisions determined or that will be determined in the remuneration policy, as will be in effect from time to time, including provisions regarding threshold conditions for receipt of the bonus, long-term deferred remuneration, as well as regarding the right to a reduction in the amount of the bonus by the Company's Board of Directors. It should also be noted that under the remuneration policy, in a year in which there was no distribution of bonuses for any reason (including in case the threshold conditions for bonus distribution were not met in accordance with the remuneration policy) ("threshold conditions"), the Audit and Remuneration Committee and the Company's Board of Directors may decide, at their discretion, on the payment of a special bonus to the CEO in an amount not exceeding an amount equal to 3 months base salary only (as it was in the year for which the "special bonus" is granted). The Company's Audit and Remuneration Committee and Board of Directors may decide on the payment of a special bonus to the CEO also in a year in which the threshold conditions were met, provided that the total bonuses, the annual bonus and the special bonus do not exceed the amount of NIS 3 million.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 22 - Transactions with Interested Parties and Related Parties (continued)

B. Transactions with related parties and other interested parties: (continued)

b. Employment agreement for the Company CEO (continued)

Mr. Soreq is entitled to social benefits, such as contributions into executive insurance or a pension fund, and to a study fund, as is customary for senior officers in the Company, and for the value of vehicle maintenance (including gross-up). In addition, Mr. Soreq is entitled to reimbursement of travel and living expenses in Israel and abroad and to a clothing allowance according to the Company's procedures and in accordance with the rates and amounts applicable to the Company from time to time. Mr. Soreq and his family members are entitled to benefits on flight tickets during the period of his employment with the Company in accordance with the provisions of the employment agreement.

Mr. Soreq is entitled to vacation, illness and convalescence days, as detailed below: (a) for each full year of employment with the company (including the period of prior notice), Mr. Soreq is entitled to an annual vacation of 22 work days, which may be accrued during his term of office indefinitely; (b) the company will pay the CEO for a period of illness - up to 30 days for each year of employment with the Company, with the right to accrue indefinitely with no limit - sick pay (base salary, other amounts and benefits he would have been entitled to if he had worked for the Company during the illness), without the right of redemption; (c) for each year of employment with the Company, the CEO will be entitled to a convalescence pay at a rate of 14 convalescence days, according to the rate customary in the Company.

C. Expenses in respect of remuneration of key management personnel:

	For the Year ended December 31		
	2021	2020	2019
	USD	USD	USD
	thousands	thousands	thousands
Short-term benefits	4,198	4,102	4,709
Post-employment benefits	695 (*)	158	102
Total	4,893	4,260	4,811

(*) The increase in this item in 2021 is mainly due to the provision for an adjustment grant for key management personnel who have been absorbed in the Company in the reporting year.

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 22 - Transactions with Interested Parties and Related Parties (continued)

D. Benefits given to interested parties:

	For the Year ended December 31		
	2021	2020	2019
	USD thousands	USD thousands	USD thousands
Chairman of the Board services and management fees for interested parties employed by the Company	253	220	276
Number of people to whom the benefit applies (*)	2	1	1
Remuneration of directors who are not employed by the Company	382	479	368
Number of people to whom the benefit applies (*)	11	17	9

(*) In 2021, several directors in the Company ended their term of office, who were replaced by other directors.

E. Balances with interested parties and related parties:

	As of December 31	
	2021	2020
	USD thousands	USD thousands
Interested parties / other related parties:		
Under current assets:		
Trade receivables:		
Related party and interested party	574	-
Total highest debit balances in the accounting year	205	147

	As of December 31	
	2021	2020
	USD thousands	USD thousands
Under current liabilities:		
Interested party	-	1
Current employee benefit obligations		
Interested party	38	340
Non-current employee benefit obligations		
Interested party	267	448

El Al Israel Airlines Ltd.
Notes to the Consolidated Financial Statements

Note 22 - Transactions with Interested Parties and Related Parties (continued)

F. Transactions with interested parties and related parties:

	For the Year ended December 31		
	2021	2020	2019
	USD thousands	USD thousands	USD thousands
Interested parties / other related parties:			
Revenues from interested parties and related parties:			
Flight tickets (1)	1,345	215	22,319
Cargo transportation (1)	-	17	310
Other revenue	-	496	1,314
Operating expenses	-	92	1,028
Sales expenses:			
Mainly commissions and marketing fees to interested parties	-	1	1,728
Advertising services to interested parties	-	17	241
General and administrative expenses:	8,857	6,431	2,810

- (1) It should be clarified that the amount presented in the table includes, for the sake of caution, also the total turnover in respect of transactions from which commissions are derived at various rates paid to related parties or to the Company, as the case may be.



March 2, 2022

To:

The Board of Directors of El Al Israel Airlines Ltd.

Ben Gurion Airport

Dear Sir / Madam

Re: Consent given in connection with the shelf prospectus of El Al Israel Airlines Ltd. (hereinafter – "the Company") as of August 31, 2020

We hereby notify you that we agree to the inclusion (including by way of reference) of our reports which are specified below in connection with the shelf prospectus of August 31, 2020 and the shelf proposals thereunder:

- (1) Auditor's report as of March 2, 2022 on the consolidated financial statements of the Company as of December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021.
- (2) Auditor's report as of March 2, 2022 on the audit of the internal control components over financial reporting as of December 31, 2021.

Respectfully,
Brightman Almagor Zohar & co
Brightman Almagor Zohar & co.

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Chapter E

Annual Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure

El Al Israel Airlines Ltd.
2021 Periodic Report

Attached herein is the Annual Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure according to Regulation 9B(a) of the Securities Regulations (Periodic and Immediate Reports), 1970:

The management, under the supervision of the Board of Directors of El Al Israel Airlines Ltd. (hereinafter - the Corporation), is responsible for determining and maintaining adequate internal control over the Corporation's financial reporting and disclosure.

In this regard, the members of management as of a date near the approval of the report are:

- Avigal Soreq - CEO
- Yitzhak Eliav – CFO
- Yehudit Grisaro – VP Human Resources and Administration
- Dina Ganancia – VP Commerce and Aviation Relations
- Shlomi Karako – VP Maintenance and Engineering
- Leehu Hacohen – VP Operation
- Ido Biger – VP Computer Technologies
- Oren Cohen Botansky – VP Customer Service
- Omri Cohen – VP Operations

Internal control over financial reporting and disclosure includes controls and procedures existing in the Corporation, which were designed by, or under the supervision of, the CEO and the CFO, or by the person actually performing these functions, supervised by the Corporation's Board of Directors, which are intended to provide a reasonable degree of assurance regarding the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Corporation is required to disclose in the reports it publishes under the provisions of the law is collected, processed, summarized and reported on the date and in the format determined by law.

Internal control includes, among other things, controls and procedures designed to ensure that information required for disclosure by the Corporation is accumulated and submitted to the Corporation's management, including to the CEO and the CFO or to those who perform these functions, in order to enable decision making at the appropriate time, taking into consideration the disclosure requirement.

Due to its structural limitations, internal control over financial reporting and disclosure is not intended to provide absolute assurance that a misrepresentation or omission of information in the reports will be prevented or discovered.

The management, under the supervision of the Board of Directors, has performed an audit and assessment of the internal control over the financial reporting and disclosure in the Corporation and its effectiveness.

The assessment of the effectiveness of the internal control over the financial reporting and disclosure carried out by the management under the supervision of the Board of Directors included:

Mapping and identifying the accounts and business processes that the Company considers to be essential for financial reporting and disclosure, determining and designing controls that provide a response for the risks identified by management and examining the effectiveness of such controls. The internal control components included: (1) entity-level controls, including controls over the process of preparing and closing a financial report and information technology general controls; (2) controls over passenger revenue from the sale of airline tickets; (3) controls over the frequent flyer program; (4) controls over fixed assets - aircraft, engines and spare parts; (5) controls over salaries expenses for employees in Israel; (6) controls over employee benefits in Israel; (7) revenue from cargo. All internal control components are with the exception of subsidiaries.

Based on the management's assessment of the effectiveness, under the supervision of the Board of Directors as detailed above, the Corporation's Board of Directors and management concluded that the internal control over the Corporation's financial reporting and disclosure as of December 31, 2021 is effective.

(A) Statement of the CEO according to Regulation 9B(d)(1):

Executive Statement CEO Statement

I, Avigal Soreq, do hereby declare that:

1. I have examined the periodic report of El Al Israel Airlines Ltd. (hereinafter - the Corporation) for 2021 (hereinafter - the Reports);
2. To the best of my knowledge, the reports do not include any misrepresentation of a significant fact and do not lack a presentation of a significant fact necessary so that the presentations included therein, in view of the circumstances in which those representations were included, will not be misleading with respect to the reporting period;
3. To the best of my knowledge, the financial statements and other financial information contained in the reports adequately reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation as of the dates and periods to which the statements relate;
4. I have disclosed to the Corporation's Auditor, to the Board of Directors, to the Audit and Remuneration Committee and to the Committee for Examining the Corporation's Financial Statements (Balance Sheet), based on my most recent assessment of the internal control over financial reporting and disclosure:
 - A. All significant deficiencies and material weaknesses in the determination or exercise of internal control over financial reporting and disclosure that are reasonably likely to adversely affect the Corporation's ability to collect, process, summarize or report on the financial information in a manner that casts doubt on the reliability of the financial reporting and preparation of financial statements in accordance with the provisions of the law; and –
 - B. Any fraud, whether material or immaterial, involving the CEO or his direct subordinates or involving other employees who have a significant role in the internal control over financial reporting and disclosure;
5. Alone or with others in the Corporation:
 - A. I have established controls and procedures, or have verified the establishment and existence of controls and procedures under my supervision, designed to ensure that significant information relating to the Corporation, including its consolidated companies, as defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the Corporation and in the consolidated companies, in particular during the preparation period of the statements; and –
 - B. I have established controls and procedures, or have verified the establishment and existence of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;
 - C. I have assessed the effectiveness of the internal control over financial reporting and disclosure, and have presented in this report the conclusions of the Board of Directors and management regarding the effectiveness of the internal control as stated as of the date of the statements.

Nothing in the foregoing to derogate from my responsibility or from the responsibility of any other person, under any law.

March 2, 2022

Avigal Soreq, CEO

(B) Statement of the CFO according to Regulation 9B(d)(2):

Executive Statement Statement of the CFO

I, Yitzhak Eliav, do hereby declare that:

1. I have examined the financial statements and other financial information included in the reports of El Al Israel Airlines Ltd. (hereinafter - the Corporation) for 2021 (hereinafter - the Statements);
2. To the best of my knowledge, the financial statements and other financial information included in the reports do not include any misrepresentation of a significant fact and do not lack a presentation of a significant fact necessary so that the presentations included therein, in view of the circumstances in which those representations were included, will not be misleading with respect to the reporting period;
3. To the best of my knowledge, the financial statements and other financial information contained in the reports adequately reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation as of the dates and periods to which the statements relate;
4. I have disclosed to the Corporation's Auditor, to the Board of Directors, to the Audit and Remuneration Committee and to the Committee for Examining the Corporation's Financial Statements (Balance Sheet), based on my most recent assessment of the internal control over financial reporting and disclosure:
 - A. All significant deficiencies and material weaknesses in the determination or exercise of internal control over financial reporting and disclosure to the extent that it relates to the financial statements and other financial information contained in the reports, that are reasonably likely to adversely affect the Corporation's ability to collect, process, summarize or report on the financial information in a manner that casts doubt on the reliability of the financial reporting and preparation of financial statements in accordance with the provisions of the law; and –
 - B. Any fraud, whether material or immaterial, involving the CEO or his direct subordinates or involving other employees who have a significant role in the internal control over financial reporting and disclosure;
5. Alone or with others in the Corporation:
 - A. I have established controls and procedures, or have verified the establishment and existence of controls and procedures under my supervision, designed to ensure that significant information relating to the Corporation, including its consolidated companies, as defined in the Securities Regulations (Annual Financial Statements), 2010 to the extent that it is relevant to the financial statements and other financial information contained in the reports, is brought to my attention by others in the Corporation and in the consolidated companies, in particular during the preparation period of the statements; and –
 - B. I have established controls and procedures, or have verified the establishment and existence of controls and procedures under our supervision, designed to reasonably ensure the reliability of the financial reporting and preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;
 - C. I have assessed the effectiveness of the internal control over financial reporting and disclosure, to the extent that it relates to the financial statements and other financial information contained in the statements as of the date of the statements; my conclusions regarding my assessment as stated were presented to the Board of Directors and management and are included in this report.

Nothing in the foregoing to derogate from my responsibility or from the responsibility of any other person, under any law.

March 2, 2022

Yitzhak Eliav, CFO