



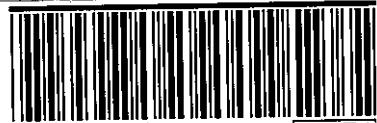
EL AL ISRAEL AIRLINES LIMITED

FC 4087

**FINANCIAL STATEMENTS**

**AS AT DECEMBER 31, 1993**

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COMPANIES HOUSE 10/03/95

EL AL ISRAEL AIRLINES LIMITED

FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1993

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414-25970

**BAVLY MILLNER & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS

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**AUDITORS' REPORT  
TO THE SHAREHOLDERS OF  
EL AL ISRAEL AIRLINES LIMITED**



We have examined the balance sheet of El Al Israel Airlines Limited as of December 31, 1993 and the related income statement and statement of cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards, including standards prescribed by the Auditors (Modes of Operation) Regulations, 5733-1973, and accordingly we have applied such auditing procedures as we considered necessary in the circumstances.

The financial statements of certain investee companies were examined by other auditors. The investments in these companies, whose financial statements were not audited by us, constitute approximately 3% of the Company's total assets as of December 31, 1993 and the Company's share of their earnings constitutes approximately 16% of the Company's net income in 1993.

In our opinion, based on our examination and on the reports of other auditors as stated above, the abovementioned financial statements present fairly in conformity with generally accepted accounting principles the financial position of the Company as of December 31, 1993 and the results of its operations and its cash flows for the year then ended.

Without qualifying our above opinion, we draw attention to Note 1(d) regarding matters which require arrangements with the Government of Israel and also to Notes 6 and 11 regarding liabilities to the Government of Israel and payments on account of aircraft.

Pursuant to Section 211 of the Companies Ordinance (New Version), 5743-1983, we state that we have obtained all the information and explanations we required and that our opinion on the above financial statements is given according to the best of our knowledge and the explanations received by us and as shown by the books of the Company.

*Bavly Millner & Co.*  
Bavly Millner & Co.  
Certified Public Accountants (Israel)

Tel-Aviv, 16 June, 1994  
414-25970

EL AL ISRAEL AIRLINES LIMITED

BALANCE SHEET

AS OF DECEMBER 31, 1993

|  | December 31, |         | December 31, |                       |
|--|--------------|---------|--------------|-----------------------|
|  | 1993         | 1992    | 1993         | 1992                  |
|  | \$ thousands |         |              |                       |
| <b>CURRENT ASSETS</b>  |              |         |              |                       |
| Cash and cash equivalents  | 19,844       | 73,170  |              |                       |
| Marketable securities  | 2,242        | 13,609  |              |                       |
| Short-term deposits and current maturities of long-term deposits | 21,395       | 29,045  |              |                       |
| Accounts receivable  | 81,119       | 75,258  |              |                       |
| Inventories  | 5,707        | 5,792   |              |                       |
|  | 130,307      | 196,874 |              |                       |
| <b>INVESTMENTS</b>   |              |         |              |                       |
| Deposits and nonmarketable securities                            | 23,922       | 41,159  |              |                       |
| Investee companies   | 22,693       | 21,930  |              |                       |
|  | 46,615       | 63,089  |              |                       |
| <b>LONG-TERM LIABILITIES</b>                                     |              |         |              |                       |
| Bank loans   |              |         | 9            | 101,477               |
| Provisions   |              |         | 10           | 377,631               |
| Government of Israel   |              |         | 11           | 18,803                |
| Other accounts payable   |              |         | 12           | 17,838                |
|  |              |         |              | 515,749               |
|  |              |         |              | 776,256               |
|  |              |         |              | 723,052*              |
| <b>LESS CAPITAL DEFICIENCY</b>                                   |              |         |              |                       |
| Share capital  |              |         | 13           | 7                     |
| Capital adjustment reserve                                       |              |         | 7            | 42,109                |
| Capital reserve  |              |         |              | 44,945                |
| Balance of loss  |              |         |              | (201,493)             |
|  |              |         |              | (114,432)             |
|  |              |         |              | (124,340)*            |
|  |              |         |              | 661,824               |
|  |              |         |              | 598,712               |
|  |              |         |              | *****                 |
|  |              |         |              | *Restated - Note 2(f) |
| <b>FIXED ASSETS</b>  |              |         |              |                       |
|  | 484,902      | 338,749 |              |                       |
|  | 661,824      | 598,712 |              |                       |
|  | *****        | *****   |              |                       |

The notes to the financial statements are an integral part thereof.

Shmuel Tsur, Advocate  
 Official Receiver and Provisional Liquidator

S. Tsur

EL AL ISRAEL AIRLINES LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 1993

|  | Note  | <u>1 9 9 3</u>   | <u>1 9 9 2</u>      | <u>1 9 9 1</u>  |
|--|-------|------------------|---------------------|-----------------|
|  |       |                  | <u>\$ thousands</u> |                 |
| Revenues   | 14(a) | 947,159          | 937,807             | 877,667         |
| Operating expenses   | 14(b) | <u>639,749</u>   | <u>626,280</u>      | <u>608,326</u>  |
| Gross income   |       | 307,410          | 311,527             | 269,341         |
|  |       | -----            | -----               | -----           |
| Selling expenses   |       | 214,787          | 194,071             | 167,953         |
| Administrative and general expenses  | 14(c) | <u>72,139</u>    | <u>71,689</u>       | <u>62,650</u>   |
|  |       | 286,926          | 265,760             | 230,603         |
|  |       | -----            | -----               | -----           |
| Operating income before financing<br>income (expenses)                     |       | 20,484           | 45,767              | 38,738          |
| Financing income (expenses), net   | 14(d) | ( <u>1,201</u> ) | ( <u>3,454</u> )    | <u>198</u>      |
| Income before other income (expenses)                                      |       | 19,283           | 42,313              | 38,936          |
| Company's share in Government<br>expenses for security services            | 14(e) | ( 11,340 )       | ( 12,060 )          | ( 7,942 )       |
| Gain from sale of fixed assets   |       | 283              | 344                 | 2,470           |
| Net excess insurance proceeds for loss<br>of cargo aircraft for allocation |       | -                | 44,945              | -               |
| Transfer to capital reserve  | 14(f) | <u>-</u>         | ( <u>44,945</u> )   | <u>-</u>        |
| Income before earnings of affiliates                                       |       | 8,226            | 30,597              | 33,464          |
| Earnings of affiliates   | 14(g) | <u>1,682</u>     | <u>919</u>          | <u>5,491</u>    |
| Net income for the year  |       | 9,908            | 31,516              | 38,955          |
| Balance of loss at beginning of year                                       |       | <u>211,401</u>   | <u>242,917*</u>     | <u>281,872*</u> |
| Balance of loss at end of year   |       | <u>201,493</u>   | <u>211,401*</u>     | <u>242,917*</u> |
|  |       | =====            | =====               | =====           |

\*Restated - Note 2(j)

The notes to the financial statements are an integral part thereof.

EL AL ISRAEL AIRLINES LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 1993

|   | <u>1 9 9 3</u>      | <u>1 9 9 2</u>   | <u>1 9 9 1</u>   |
|---|---------------------|------------------|------------------|
|   | <u>\$ thousands</u> |                  |                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                     |                     |                  |                  |
| Net income for the year   | 9,908               | 31,516           | 38,955           |
| Reconciliation of net income to net cash from operating activities - Schedule A | <u>47,851</u>       | <u>53,145</u>    | <u>65,056</u>    |
| Net cash provided by operating activities                                       | <u>57,759</u>       | <u>84,661</u>    | <u>104,011</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                     |                     |                  |                  |
| Net decrease in short-term deposits   | 20,000              | 21,000           | 10,000           |
| Insurance compensation for loss of cargo aircraft                               | -                   | 49,493           | -                |
| Purchase of fixed assets, including payments on account of aircraft             | (180,819)           | (101,683)        | ( 57,484)        |
| Proceeds from sale of fixed assets  | 425                 | 669              | 2,560            |
| Decrease in loans to investee companies   | 998                 | 803              | 6,292            |
| Investment in affiliate   | ( 50)               | -                | -                |
| Proceeds from realization (net increase) of marketable securities               | 11,443              | ( 831)           | ( 2,758)         |
| Investments in long-term deposits   | ( 5,115)            | ( 30,343)        | ( 4,921)         |
| Redemption of long-term deposits  | <u>10,504</u>       | <u>9,674</u>     | <u>55,955</u>    |
| Net cash provided (used) by investing activities                                | <u>(142,614)</u>    | <u>( 51,218)</u> | <u>9,644</u>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                     |                     |                  |                  |
| Repayment of long-term loans  | ( 6,103)            | ( 34,351)        | ( 78,115)        |
| Net increase (decrease) in short-term loans from banks                          | ( 6,002)            | 1,061            | ( 72,178)        |
| Receipt of long-term loans  | 40,000              | -                | 69,000           |
| Receipt of deposit from investee company  | <u>3,634</u>        | <u>-</u>         | <u>-</u>         |
| Net cash provided (used) by financing activities                                | <u>31,529</u>       | <u>( 33,290)</u> | <u>( 81,293)</u> |
| Net increase (decrease) in cash and cash equivalents                            | <u>( 53,326)</u>    | <u>153</u>       | <u>32,362</u>    |
| Cash and cash equivalents at beginning of year                                  | <u>73,170</u>       | <u>73,017</u>    | <u>40,655</u>    |
| Cash and cash equivalents at end of year  | <u>19,844</u>       | <u>73,170</u>    | <u>73,017</u>    |

The notes to the financial statements are an integral part thereof.

EL AL ISRAEL AIRLINES LIMITED  
 SCHEDULES TO THE STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED DECEMBER 31, 1993

|  | <u>1 9 9 3</u>      | <u>1 9 9 2</u>   | <u>1 9 9 1</u> |
|--|---------------------|------------------|----------------|
|  | <u>\$ thousands</u> |                  |                |
| <b>SCHEDULE A - RECONCILIATION OF NET INCOME<br/>TO NET CASH FROM OPERATING ACTIVITIES</b> |                     |                  |                |
| <b>Income and expenses not constituting cash flows</b>                                     |                     |                  |                |
| Earnings of affiliates   | ( 1,711)            | ( 1,885)         | ( 5,184)       |
| Depreciation   | 38,098              | 35,635           | 43,295         |
| Increase in provision for use of aircraft  | 20,161              | 20,298           | 31,948         |
| Obsolete equipment written off   | 1,406               | 961              | 843            |
| Increase in liability for severance of<br>employee-employer relations                      | 587                 | 9,122            | 766            |
| Net increase (decrease) in provision for<br>aircraft flight capability                     | ( 3,798)            | ( 920)           | 30             |
| Increase in long-term accounts payable   | 7,087               | -                | -              |
| Gain from sale of fixed assets   | ( 283)              | ( 344)           | ( 2,470)       |
| Increase in value of marketable securities   | ( 76)               | ( 654)           | ( 853)         |
| Increase (decrease) in value of long-term<br>deposits                                      | ( 502)              | 2,064            | ( 923)         |
| <b>Changes in assets and liabilities</b>   |                     |                  |                |
| Decrease (increase) in accounts receivable   | ( 5,861)            | 1,281            | 3,222          |
| Decrease (increase) in inventories   | 85                  | ( 28)            | ( 588)         |
| Decrease in other accounts payable   | ( 10,662)           | ( 2,222)         | ( 14,769)      |
| Increase (decrease) in unearned<br>transportation revenue                                  | <u>3,320</u>        | <u>( 10,163)</u> | <u>9,739</u>   |
|  | <u>47,851</u>       | <u>53,145</u>    | <u>65,056</u>  |
|  | =====               | =====            | =====          |
| <b>SCHEDULE B - NONCASH TRANSACTIONS</b>   |                     |                  |                |
| Purchase of fixed assets   | 4,980               | 3,800            | -              |
|  | =====               | =====            | =====          |





NOTE 1 - GENERAL (continued)

- (5) Interested parties as defined in the Securities Regulations (Preparation of Annual Financial Statements) 1993;
- (6) The group the Company and its investees.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

- (a) Presentation of financial statements in U.S. dollars

-----  
Most of the transactions of the group companies are performed outside of Israel in foreign currency, mainly in U.S. dollars ("dollars"). Revenues of these companies are mainly in foreign currency and also the fixed assets were purchased mainly in dollars. Accordingly, the dollar is the currency of the economic environment in which the transactions of the group's companies take place. Amounts in dollars should not be construed as being realizable or payable in or convertible into dollars unless so stated.

Transactions effected in currencies other than dollars are included in the financial statements as follows:

- Inventories, investments in nonmarketable shares and fixed assets are included at the rates of exchange as at the dates of acquisition.
- Other assets and liabilities are included at the rates of exchange on balance sheet date.
- The nominal amount of the Company's share capital in Israeli currency is translated into dollars at the rate of exchange on balance sheet date.

The difference between this amount and the amount calculated at the rates of exchange at the dates the amounts were received from the shareholders is included in the balance sheet in a capital adjustment reserve.

- Income and expenses, other than depreciation, are included at the rates of exchange at the dates of the transactions. Depreciation is calculated at the rates of exchange according to which the fixed assets were included.
- Exchange differences resulting from the adjustment of monetary assets and liabilities are included in net financing income in the income statement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Rates of exchange:

|               |            | <u>December 31,</u> |             |             |             | <u>Increase (decrease)<br/>in value of the dollar<br/>For the year ended<br/>December 31,</u> |             |             |
|---------------|------------|---------------------|-------------|-------------|-------------|---|-------------|-------------|
|               |            | <u>1993</u>         | <u>1992</u> | <u>1991</u> | <u>1990</u> | <u>1993</u>   | <u>1992</u> | <u>1991</u> |
|               |            |                     |             |             |             | <u>%</u>  | <u>%</u>    | <u>%</u>    |
| New shekel*   | \$1 = 2.99 | 2.76                | 2.28        | 2.05        |             | 8   | 11          |             |
| German mark   | \$1 = 1.74 | 1.61                | 1.52        | 1.50        |             | 8   | 7           |             |
| British pound | \$1 = 0.68 | 0.66                | 0.53        | 0.52        |             | 3   | 25          |             |
| French franc  | \$1 = 5.89 | 5.50                | 5.18        | 5.11        |             | 7   | 6           |             |

\* The increase in the value of the dollar, as adjusted for the increase in the consumer price index (according to the index for December), was 3% in 1993 (1992 - decrease of 11%).

(b) Cash and cash equivalents

Cash and cash equivalents include bank deposits with original maturities not exceeding three months.

(c) Marketable securities

Marketable securities are included at their value on the Tel Aviv Stock Exchange as of the date of the financial statements.

(d) Provision for doubtful accounts

The provision is determined in respect of specific accounts whose collection is doubtful.

(e) Inventories

Inventories are included at the lower of cost, determined by the moving average method, or market value.

(f) Investments

Investments in investee companies are included by the equity method, in accordance with their audited financial statements as of the date of the financial statements of the Company, in dollars or translated into dollars at the exchange rate as of the date of the financial statements.

Consolidated financial statements of the Company and its subsidiaries are not prepared since such financial statements would not differ significantly from the financial statements of the Company, because the regular business activities of the subsidiaries is not material.

The results of the business operations of Sun D'or International Airlines Ltd. are combined in the operating results of the Company. The Company's share in the earnings of the other subsidiaries is included in "other revenues" in the income statement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company's share in the earnings of affiliates are included as a separate item in the income statement.

Investments in other nonmarketable shares are included at cost which, according to management evaluation, is not in excess of their fair value.

(g) Fixed assets

-----  
Fixed assets are included at cost, less accumulated depreciation. The cost of accessories and spare parts is determined according to the moving average method.

Depreciation is calculated as follows:

Aircraft and other fixed assets - by the straight line method on cost over the estimated useful lives of the assets. Aircraft for which a residual value has been determined are depreciated to the residual value, which is then depreciated by the straight line method over four years.

Accessories and spare parts - following a recommendation of a joint committee of the Ministry of Finance and the Ministry of Transportation, and beginning in 1992, depreciation is calculated at annual rates based on the years remaining to depreciate the related aircraft.

In 1991 accessories and spare parts were depreciated up to the rate of the average depreciation accumulated on the aircraft. This change in method resulted in an increase in net income of \$2,976,000 in 1992.

(h) Provision for aircraft flight capability

-----  
The provision is determined by the evaluation of the Company's engineering and quality control division, based on manufacturers' guidelines and on regulations of international aviation authorities. The provision is based on long-range plans according to the above guidelines and regulations.

(i) Revenue recognition

-----  
Prior to 1993, passenger ticket sales were included as unearned transportation revenue under current liabilities until the earlier of the time the service was provided or three years from the time of sale.

Beginning in 1993, and in accordance with the recommendation of the steering committee of El Al, composed jointly of representatives of the Ministries of Finance and Transportation, the Company decided to shorten the period from three years to two years from the time of sale, and to allocate the resulting increase in revenues to the years 1993 and 1994.

This change resulted in an increase in net income in 1993 of \$3,500,000.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Restatement of the opening balance of loss

-----  
 The liabilities in respect of the severance of employee-employer relations are covered by the provision. As stated in Note 1(e) above, in 1993 the amount of the liabilities was redetermined and was adjusted to that required according to accounting principles required for companies subject to the Securities Law. Accordingly, expression was given to the fact that the Company generally releases its employees from the requirement to work during the period from the early notice of resignation required by the employment agreement until the date of resignation. This practice (which has been in existence in the Company since the decade of the 1970's) is expressed in the increase in the liabilities in the amount of approximately \$16,000,000. Provision for the full amount above, related to the years prior to 1991, increased the balance of loss of the beginning of 1991 to \$281,872,000, at the beginning of 1992 to \$242,917,000 and at the beginning of 1993 to \$211,401,000.

| <u>December 31,</u> |             |
|---------------------|-------------|
| <u>1993</u>         | <u>1992</u> |
| <u>\$ thousands</u> |             |

NOTE 3 - ACCOUNTS RECEIVABLE

|  |              |              |
|--|--------------|--------------|
| Customers                                |              |              |
| Government ministries                    | 2,110        | 2,427        |
| Others*                                  | 50,809       | 42,001       |
| Loans and advances to employees          | 1,101        | 802          |
| Other accounts receivable                | 21,100       | 24,533       |
| Prepaid expenses                         | <u>5,999</u> | <u>5,495</u> |
|  | 81,119       | 75,258       |
|  | =====        | =====        |
| * Net of provision for doubtful accounts | 3,016        | 2,869        |
|  | =====        | =====        |

NOTE 4 - DEPOSITS AND NONMARKETABLE SECURITIES

|  | Interest<br>rates | December 31,        |               |
|--|-------------------|---------------------|---------------|
|  |                   | 1993                | 1992          |
|  |                   | <u>\$ thousands</u> |               |
| Long-term deposits   |                   |                     |               |
| Israeli currency, index linked                             | 2% - 6%           | 12,597              | 17,645        |
| In or linked to dollars*                                   | 4% - 7%           | <u>31,863</u>       | <u>31,702</u> |
|  |                   | 44,460              | 49,347        |
| Less current maturities                                    |                   | <u>21,395</u>       | <u>9,045</u>  |
|  |                   | 23,065              | 40,302        |
| Nonmarketable securities                                   |                   | <u>857</u>          | <u>857</u>    |
|  |                   | 23,922              | 41,159        |
|  |                   | =====               | =====         |
| Redemptions after the date of the<br>financial statements: |                   |                     |               |
| Second year  |                   | 14,922              | 19,863        |
| Third year   |                   | 3,788               | 13,645        |
| Fourth year  |                   | 1,966               | 2,516         |
| Fifth year   |                   | 1,274               | 1,924         |
| Subsequent years   |                   | <u>1,115</u>        | <u>2,354</u>  |
|  |                   | 23,065              | 40,302        |
|  |                   | =====               | =====         |
| Composition of the deposits less<br>current maturities     |                   |                     |               |
| Deposits, mainly with banks**                              |                   | 23,065              | 39,302        |
| Deposits with aircraft lessor to<br>secure lease agreement |                   | <u>-</u>            | <u>1,000</u>  |
|  |                   | 23,065              | 40,302        |
|  |                   | =====               | =====         |

\* See Note 15(d) with regard to liens on bank deposits.

\*\* Includes \$3,634,000 deposited with a bank against a deposit received by the Company from an investee company in the same amount and at the same terms.

NOTE 5 - INVESTEE COMPANIES

(a) The principal investee companies are:

| <u>Subsidiaries</u>   | <u>Activity</u>                  | <u>Holding</u> |
|---|----------------------------------|----------------|
| Directly owned:   |                                  |                |
| Sun D'or International Airlines Ltd.<br>("Sun D'or")                      | Charter flight operations        | 100%           |
| Teshet - Tourist Enterprises and<br>Aviation Services Co. Ltd. ("Teshet") | Holding company                  | 100%           |
| Superstar Holidays Ltd. ("Superstar")                                     | Package tour sales               | 100%           |
| Katit Ltd.  | Catering employee meals          | 100%           |
| Companies owned by Teshet:  |                                  |                |
| Borenstein Caterers Inc. (U.S.A.)<br>("Borenstein")                       | Catering                         | 100%           |
| Laromme Hotels (International) Ltd.<br>("Laromme")                        | Hotel operators in Israel        | 100%           |
| Tamam Aircraft Food Industries<br>(Ben-Gurion Airport) Ltd. ("Tamam")     | Catering                         | 77%            |
| <u>Affiliates</u>   |                                  |                |
| North American Airlines Inc. ("N.A.A.")                                   | Feeder flight operators          | 24.9%          |
| Maman - Cargo Terminal and Handling<br>Ltd. ("Maman")                     | Freight operators<br>and storage | 26%            |
| Starline B.V. ("Starline")  | Aircraft leasing                 | 48%            |

| (b) Composition     | December 31,      |       |                                     |        | 1 9 9 2 |
|---------------------|-------------------|-------|-------------------------------------|--------|---------|
|                     | 1 9 9 3           |       | 1 9 9 2                             |        |         |
|                     | Shares<br>at cost | Loan  | Accrued<br>earnings<br>\$ thousands | Total  | Total   |
| <u>Subsidiaries</u> |                   |       |                                     |        |         |
| Teshet              | 33                | 6,008 | 15,329                              | 21,370 | 21,254  |
| Superstar           | 28                | 547   | 191                                 | 766    | 141     |
| Sun D'or            | 3                 | -     | -                                   | 3      | 3       |
| Katit               | -                 | -     | -                                   | -      | -       |
|                     | 64                | 6,555 | 15,520                              | 22,139 | 21,398  |
| <u>Affiliates</u>   |                   |       |                                     |        |         |
| N.A.A.              | 75                | 170   | 236                                 | 481    | 532     |
| Starline            | 50                | -     | 23                                  | 73     | -       |
|                     | 125               | 170   | 259                                 | 554    | 532     |
|                     | 189               | 6,725 | 15,779                              | 22,693 | 21,930  |
|                     | ====              | ===== | =====                               | =====  | =====   |

NOTE 5 - INVESTEE COMPANIES (continued)

(c) Following are the condensed combined financial statements of the subsidiaries:

|                                    | <u>December 31,</u> |               |
|------------------------------------|---------------------|---------------|
|                                    | <u>1993</u>         | <u>1992</u>   |
|                                    | <u>\$ thousands</u> |               |
| <u>Balance sheet</u>               |                     |               |
| Fixed assets                       | 3,121               | 1,907         |
| Investment in Maman*               | 9,697               | 8,616         |
| Other assets                       | <u>18,143</u>       | <u>19,951</u> |
|                                    | 30,961              | 30,474        |
|                                    | =====               | =====         |
| Provisions                         | 206                 | 242           |
| Teshet - amount due to the Company | 6,008               | 7,398         |
| Current liabilities                | <u>7,913</u>        | <u>7,473</u>  |
|                                    | 14,127              | 15,113        |
| Outside shareholders interest      | 1,250               | 1,361         |
| Shareholders' equity               | <u>15,584</u>       | <u>14,000</u> |
|                                    | 30,961              | 30,474        |
|                                    | =====               | =====         |
| * After deduction of net dividend  | <u>472</u>          | <u>487</u>    |
|                                    | =====               | =====         |

NOTE 5 - INVESTEE COMPANIES (continued)

| <u>Income Statement</u>   | <u>1993</u>         | <u>1992 *</u> | <u>1991 *</u> |
|---|---------------------|---------------|---------------|
|   | <u>\$ thousands</u> |               |               |
| Income from management and services   | 9,591               | 9,643         | 8,414         |
| Administrative and general expenses   | ( 9,095)            | ( 6,777)      | (5,880)       |
| Other expenses, net   | 242                 | ( 617)        | ( 266)        |
| Teshet's share in earnings of Maman   | 1,553               | 786           | 2,152         |
| Gain from realization of shares of Maman held by Teshet   | -                   | -             | 3,340         |
| Provision for claims  | -                   | -             | (1,000)       |
| <br>  |                     |               |               |
| Net income of subsidiaries before minority shareholders' share **                                 | 2,291               | 3,035         | 6,760         |
| Minority shareholders' share in earnings of subsidiary  | ( 119)              | ( 349)        | ( 222)        |
| Participation in El Al expenses credited to the Company   | ( 588)              | ( 934)        | (1,353)       |
| <br>  |                     |               |               |
| Company's share in earnings of investee companies   | 1,584               | 1,752         | 5,185         |
|   | =====               | =====         | =====         |
| <br>  |                     |               |               |
| **Operating results by area of activity   |                     |               |               |
| Net income (loss) of subsidiaries before outside shareholders' share                              |                     |               |               |
| Preparation and sale of meals   |                     |               |               |
| In Israel (Tamam)   | 516                 | 1,518         | 965           |
| In the U.S.A. (Borenstein)  | 92                  | 149           | 208           |
| Management and operation of hotel in Israel (Laromme)   | 483                 | 513           | 149           |
| Travel and tourist agencies in Europe   |                     |               |               |
| Teshet  | ( 89)               | ( 27)         | ( 16)         |
| Superstar   | 78                  | 71            | 21            |
| Commissions on sale of tickets, services, income from management fees and other income, by Teshet | 574                 | 898           | 1,890         |
| Administrative and general expenses of Teshet   | ( 916)              | ( 873)        | ( 949)        |
| Provision for claims  | -                   | -             | (1,000)       |
|   | 738                 | 2,249         | 1,268         |
| Teshet's share of earnings of Maman   | 1,553               | 786           | 2,152         |
| Gain from realization of shares in Maman held by Teshet   | -                   | -             | 3,340         |
|   | 2,291               | 3,035         | 6,760         |
|   | =====               | =====         | =====         |

\*Reclassified





NOTE 6 - FIXED ASSETS (continued)

|     |   | December 31,   |                             |                |                |
|-----|---|----------------|-----------------------------|----------------|----------------|
|     |   | 1993           |                             | 1992           |                |
|     |   | Cost           | Accumulated<br>Depreciation | Balance        | Balance        |
|     |   | \$ thousands   |                             |                |                |
| (b) | Aircraft and flight equipment   |                |                             |                |                |
|     | <u>(1) Property of the Company</u>  |                |                             |                |                |
|     | Quantity <u>Boeing 747</u>  |                |                             |                |                |
|     | 1 258B (convertible)  | 77,684         | 48,275                      | 29,409         | 2,056          |
|     | 1 238B (passenger)  | 33,307         | 28,071                      | 5,236          | 8,437          |
|     | 3 258B (passenger)  | 75,798         | 75,798                      | -              | -              |
|     | 2 258C (convertible)  | 79,876         | 79,876                      | -              | -              |
|     | 1 124F (cargo)  | 33,035         | 33,035                      | -              | -              |
|     | Spare engines   | <u>17,220</u>  | <u>11,231</u>               | <u>5,989</u>   | <u>3,811</u>   |
|     |   | 316,920        | 276,286                     | 40,634         | 14,304         |
|     | Quantity <u>Boeing 757</u>  |                |                             |                |                |
|     | 7 258 (passenger)*  | 274,972        | 55,693                      | 219,279        | 139,361        |
|     | Spare engines   | <u>13,547</u>  | <u>3,431</u>                | <u>10,116</u>  | <u>6,154</u>   |
|     |   | 288,519        | 59,124                      | 229,395        | 145,515        |
|     | * 2 were purchased in 1993.   |                |                             |                |                |
|     | Quantity <u>Boeing 707</u>  |                |                             |                |                |
|     | 1 358F  | 10,712         | 10,712                      | -              | -              |
|     | Accessories and parts   | <u>115,652</u> | <u>66,182</u>               | <u>49,470</u>  | <u>35,870</u>  |
|     |   | 731,803        | 412,304                     | 319,499        | 195,689        |
|     | Payments on account**   |                |                             |                |                |
|     | 2 Boeing 747-400 aircraft   | 114,399        | -                           | 114,399        | 46,470         |
|     | Purchase of aircraft and flight equipment from Government of Israel - see (c) below | 15,000         | -                           | 15,000         | 15,000         |
|     | Options to purchase 2 Boeing 747-400 aircraft                                       | 1,120          | -                           | 1,120          | 1,120          |
|     | 2 Boeing 757 aircraft   | -              | -                           | -              | 33,889         |
|     | Conversion of Boeing 747-258B (passenger) to convertible aircraft                   | -              | -                           | -              | <u>14,625</u>  |
|     |   | <u>130,519</u> | -                           | <u>130,519</u> | <u>111,104</u> |

\*\* See Note 15(a)(1) regarding commitments.

NOTE 6 - FIXED ASSETS (continued)

(c) Aircraft and flight equipment owned by the Government of Israel

In addition to the aircraft and flight equipment detailed above, since 1983 the Company operates two Boeing 737-200 aircraft and four Boeing 767-200 aircraft and related flight equipment, made available to the Company by the Government of Israel, which is the owner of the aircraft and equipment. The Government of Israel obtained bank financing for the purchase of these assets and is repaying the principal and interest. The loans will be fully repaid in the beginning of 1994.

Final arrangements have not yet been set with the Government of Israel regarding the payment for the use of the above aircraft and flight equipment. In the interim the Company charges annual amounts to expenses according to a calculation based on the appropriate lease fees for the 10-year period ended in 1993. An amount is deducted from the lease fees in proportion to the limits on the use of the aircraft. These amounts are credited to the provision for the use of aircraft - Note 10(b).

In addition to this the Company has current maintenance expenses, including parts and fixed expenses such as insurance and license fees.

The Company paid the Government of Israel approximately \$10,000,000 on account of the above lease fees, of which \$439,000 was paid in 1993. These amounts were charged to the provision.

In October 1990 an arrangement proposal was agreed upon with representatives of the Ministry of Finance according to which ownership of the leased aircraft would be transferred to the Company, as of April 1991. On account of the purchase of the aircraft and flight equipment, according to the agreement proposal, the Company credited the Government in 1990 in the amount of \$15,000,000 on account of the debt due from the Government to the Company in respect of the performance of security services by the Company.

|                                 | December 31,        |                            |            |              |
|---------------------------------|---------------------|----------------------------|------------|--------------|
|                                 | 1993                |                            |            | 1992         |
|                                 | Cost                | Accumulated<br>Depreciated | Balance    | Balance      |
|                                 | <u>\$ thousands</u> |                            |            |              |
| (d) Buildings and installations |                     |                            |            |              |
| -----                           |                     |                            |            |              |
| At Ben-Gurion Airport*          | 36,432              | 24,385                     | 12,047     | 12,113       |
| At airports abroad              | 5,486               | 3,864                      | 1,622      | 944          |
| Offices                         | 1,873               | 983                        | 890        | 909          |
| Improvements to rented offices  | <u>11,323</u>       | <u>10,571</u>              | <u>752</u> | <u>1,498</u> |
|                                 | 55,114              | 39,803                     | 15,311     | 15,464       |
|                                 | =====               | =====                      | =====      | =====        |

\* The Airports Authority gave the Company the right to use the land at the Ben-Gurion Airport until October 1, 2010 with an option for an additional 25 years.

NOTE 6 - FIXED ASSETS (continued)

|     |   |  |
|-----|---|--|
| (e) | Annual depreciation rates                       |  |
|     | -----   |  |
|     | Boeing 747 aircraft purchased before 1980       | 8% for the first ten years;<br>5% for the next four years.   |
|     | Used Boeing 747 aircraft purchased in 1988      | 16% for the first five years;<br>5% for the next four years. |
|     | Cost of aircraft conversion                     | 10%  |
|     | Boeing 757 aircraft                             | 6.25%  |
|     | Spare engines                                   | 8%   |
|     | Accessories and spare parts                     | See Note 2(g)  |
|     | Hangar, workshop and communication<br>equipment | 20%  |
|     | Computers and software                          | 20%  |
|     | Vehicles  | 20%  |
|     | Furniture and office equipment                  | 6% - 10%   |
|     | Other ground equipment                          | 10%  |
|     | Buildings                                       | 4%   |
|     | Improvements to rented offices                  | 10%  |

|  |                     |             |
|--|---------------------|-------------|
|  | <u>December 31,</u> |             |
|  | <u>1993</u>         | <u>1992</u> |
|  | <u>\$ thousands</u> |             |

NOTE 7 - CURRENT MATURITIES OF LONG-TERM LOANS  
AND SHORT-TERM LOANS

|                                       |               |               |
|---------------------------------------|---------------|---------------|
| Current maturities of long-term loans | 11,754        | 6,103         |
| Overdrafts from banks                 | 235           | 162           |
| Short-term loans from banks           | -             | 6,075         |
|                                       | <u>11,989</u> | <u>12,340</u> |
|                                       | =====         | =====         |

NOTE 8 - OTHER ACCOUNTS PAYABLE

|                                       |                |                |
|---------------------------------------|----------------|----------------|
| Suppliers                             | 97,759         | 94,784         |
| Provision for vacation pay            | 25,833         | 24,183         |
| Salaries and related expenses payable | 22,216         | 24,472         |
| Expenses and claims payable           | 21,740         | 24,995         |
| Investee companies                    | 2,546          | 1,104          |
| Other accounts payable                | <u>16,486</u>  | <u>26,041</u>  |
|                                       | <u>186,580</u> | <u>195,579</u> |
|                                       | =====          | =====          |

|                                      |   | <u>December 31,</u> |               |
|--------------------------------------|---|---------------------|---------------|
|                                      |   | <u>1993</u>         | <u>1992</u>   |
|                                      |   | <u>\$ thousands</u> |               |
| <b>NOTE 9 - LONG-TERM BANK LOANS</b> |   |                     |               |
| (a)                                  | Composition of the loans  |                     |               |
|                                      | -----   |                     |               |
|                                      | For purchase of Boeing 757 aircraft,<br>secured by fixed lien on aircraft                         | 40,000              | -             |
|                                      | For purchase of aircraft and flight<br>equipment, secured by liens on four<br>Boeing 757 aircraft | 56,413              | 62,516        |
|                                      | For general financing, secured by additional<br>lien on three Boeing 757 aircraft                 | <u>16,818</u>       | <u>16,818</u> |
|                                      |   | 113,231             | 79,334        |
|                                      | Less current maturities   | <u>11,754</u>       | <u>6,103</u>  |
|                                      |   | 101,477             | 73,231        |
|                                      |   | =====               | =====         |
| (b)                                  | Maturities after date of financial statements   |                     |               |
|                                      | -----   |                     |               |
|                                      | Second year   | 17,403              |               |
|                                      | Third year  | 17,403              |               |
|                                      | Fourth year   | 10,675              |               |
|                                      | Fifth year  | 8,390               |               |
|                                      | Subsequent years  | <u>47,606</u>       |               |
|                                      |   | 101,477             |               |
|                                      |   | =====               |               |

(c) Terms of the loans

-----  
The loans are denominated in or linked to dollars.

The loan for the purchase of the Boeing 757 aircraft bears floating interest at the rate of 1.25% above the London Interbank Offered Rate (LIBOR).

Some of the loans to purchase aircraft and flight equipment bear floating interest at the rate of 1.2% above LIBOR and the others bear fixed interest at rates of 9.6% to 10.4%.

The general financing loan bears floating interest at the rate of 1.2% above LIBOR.

|                             |  | <u>December 31,</u>   |               |
|-----------------------------|--|-----------------------|---------------|
|                             |  | <u>1993</u>           | <u>1992</u>   |
|                             |  | <u>\$ thousands</u>   |               |
| <u>NOTE 10 - PROVISIONS</u> |  |                       |               |
| (a)                         | Provision in respect of severance of<br>employee - employer relations<br>-----                         |                       |               |
|                             | Provision**  | 190,948               | 186,577*      |
|                             | Less deposits with provident funds,<br>including accrued earnings                                      | <u>52,037</u>         | <u>48,253</u> |
|                             |  | 138,911               | 138,324*      |
|                             |  | -----                 | -----         |
| (b)                         | Provision for use of aircraft - Note 6(c)<br>-----   | 218,838               | 198,677       |
| (c)                         | Provision for aircraft flight capability -<br>-----<br>Note 2(h)                                       |                       |               |
|                             | Balance at beginning of year   | 23,680                | 24,600        |
|                             | Work performed during the year   | ( 5,433)              | ( 920)        |
|                             | Additional provision, charged to maintenance<br>expense of aircraft and flight and ground<br>equipment | <u>1,635</u>          | <u>-</u>      |
|                             | Balance at end of year   | <u>19,882</u>         | <u>23,680</u> |
|                             |  | -----                 | -----         |
|                             |  | 377,631               | 360,681*      |
|                             |  | =====                 | =====         |
|                             |  | *Restated - Note 2(j) |               |

\*\* The Company's liabilities in respect of the severance of employee-employer relations are based on the terms of the employment agreements which were signed in 1992, including the relative portion of the cost-of-living increase accrued as of the end of the year. See Note 2(j) regarding the restatement of the opening balance of loss. These liabilities are covered by the provision for severance pay and also by payments to a pension fund and deposits with provident funds (in personal accounts) which are not included in the balance sheet.

Under the collective employment agreement, permanent employees have the right to join various pension plans, including those combining a comprehensive pension, managers' insurance and deposits in provident funds.

These pension plans become effective at the time the employee joins the plan. New employees are required to join the pension plans.

December 31,  
1993            1992  
\$ thousands

NOTE 11 - GOVERNMENT OF ISRAEL

The terms of this liability have not yet been determined

18,803            18,803  
=====

NOTE 12 - OTHER LONG-TERM ACCOUNTS PAYABLE

Flight equipment manufacturers  
Investee company (Note 4)  
Supplier

13,800            3,800  
3,634            -  
2,067            -

Less current portion

19,501            3,800  
1,663            -

17,838            3,800  
=====

The liabilities are repayable after the date of the financial statements as follows:

Second year  
Third year  
Fourth year  
Fifth year  
Subsequent years

15,398  
1,599  
388  
388  
65

17,838  
=====

NOTE 13 - SHARE CAPITAL

Composition of share capital as of December 31, 1993 and December 31, 1992

| Class of Shares          | Par    | Authorized | Issued and | Issued and |
|--------------------------|--------|------------|------------|------------|
|                          | value  |            | paid       | paid       |
|                          | NIS    | Number     | of shares  | NIS        |
| Ordinary "A"             | 0.01   | 180,000    | 180,000    | 1,800      |
| Ordinary                 | 0.01   | 2,569,917  | 1,559,997  | 15,600     |
| Ordinary "B"             | 0.0001 | 5          | 2          |            |
| 7% cumulative preferred* | 0.01   | 450,000    | 314,720    | 3,147      |
| Founding                 | 0.1    | 2          | 2          | 1          |
| Management               | 0.0001 | 6,294      | 6,294      |            |
| Special                  | 0.0001 | 1          | 1          |            |
|                          |        |            |            | 20,548     |
|                          |        |            |            | =====      |

\*Dividends on the 7% cumulative preferred shares were paid for the period up to March 31, 1971. The amount of the cumulative dividend in arrears is immaterial.

NOTE 14 - NOTES TO THE INCOME STATEMENT

|  | <u>1 9 9 3</u> | <u>1 9 9 2</u>      | <u>1 9 9 1</u> |
|--|----------------|---------------------|----------------|
|  |                | <u>\$ thousands</u> |                |
| (a) Revenues   |                |                     |                |
| -----  |                |                     |                |
| Passengers   | 687,668        | 677,707             | 618,062        |
| Freight and mail   | 203,258        | 204,422             | 218,151        |
| Aircraft leases  | 21,667         | 18,636              | 17,039         |
| Other revenues   | <u>34,566</u>  | <u>37,042</u>       | <u>24,415</u>  |
|  | 947,159        | 937,807             | 877,667        |
|  | =====          | =====               | =====          |
| (b) Operating expenses                                     |                |                     |                |
| -----  |                |                     |                |
| Flight and ground operations                               | 321,962        | 316,097             | 303,649        |
| Aircraft lease and provision for<br>use of aircraft        | 68,229         | 65,146              | 65,827         |
| Maintenance of aircraft and flight<br>and ground equipment | 112,553        | 110,472             | 108,811        |
| Passenger services   | 98,907         | 98,930              | 86,744         |
| Depreciation   | <u>38,098</u>  | <u>35,635</u>       | <u>43,295</u>  |
|  | 639,749        | 626,280             | 608,326        |
|  | =====          | =====               | =====          |
| (c) Administrative and general expenses                    |                |                     |                |
| -----  |                |                     |                |
| Including doubtful account expenses                        | 649            | 657                 | 606            |
|  | =====          | =====               | =====          |
| (d) Financing income (expenses), net                       |                |                     |                |
| -----  |                |                     |                |
| Including interest on long-term loans                      | 6,762          | 7,214               | 9,210          |
|  | =====          | =====               | =====          |

(e) Participation in Government expenses to secure the Company's services

-----  
The Company reimburses the Government of Israel for some of its expenses to insure the security of the Company's passengers, aircraft, offices and other installations from acts of sabotage. The allocation of expenses between the Government and the Company is based on an agreement with the Ministry of Finance from 1990.

In addition to these expenses the Company incurs other costs related to security activities. A calculation made by the Company in 1993, which is similar to a calculation prepared in previous years, estimates those additional costs at approximately \$8,700,000 annually. These additional costs are included in the operating items in the income statement.



NOTE 14 - NOTES TO THE INCOME STATEMENT (continued)

(f) Loss of cargo aircraft (AXG)

(1) On October 4, 1992 a Boeing 747-200F cargo aircraft crashed near Schiphol Airport, Holland.

The aircraft was insured for the "agreed value" of \$62 million including the aircraft and certain expenses for the reorganization period.

For the purpose of determining the compensation for the aircraft certain expenses were attributed to the "agreed value" as follows:

- lease expenses for replacement aircraft, less financing income related to the insurance proceeds;
- incremental operational expenses on replacement aircraft in excess of the regular expenses of the aircraft that was destroyed;
- the increase of the insurance premium on aircraft resulting from the incident.

(2) Shortly after the incident the Company received the full "agreed value" from the insurance company; it was accounted for as follows:

|   | \$ thousands |
|---|--------------|
| Proceeds received from the insurance company  | 62,000       |
| Applied to cover the above expenses   | 12,507       |
| Balance - compensation for the aircraft   | 49,493       |
| Less book value of the aircraft   | 4,548        |
| Excess of proceeds from insurance company<br>in respect of loss of aircraft, net,<br>allocated to capital reserve | 44,945       |
|   | =====        |

|   | 1993         | 1992  | 1991  |
|---|--------------|-------|-------|
|   | \$ thousands |       |       |
| (g) Company's share in earnings of affiliates |              |       |       |
| -----   |              |       |       |
| Maman   | 1,553        | 786   | 5,492 |
| N.A.A.  | 106          | 133   | ( 1)  |
| Starline                                      | 23           | -     | -     |
|   | 1,682        | 919   | 5,491 |
|   | =====        | ===== | ===== |

NOTE 14 - NOTES TO THE INCOME STATEMENT (continued)

(h) Taxation  
-----

The Company has received final income tax assessments for the period up to December 31, 1990.

Tax authorities in Israel and abroad have made certain tax demands connected with various activities of the Company. These demands are in various stages of objection and hearing procedures. The Company estimates that adequate provisions for these demands are included in the financial statements.

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments

(1) Commitments to Boeing Company for the purchase of aircraft and equipment  
-----

The Company entered into contracts to purchase two Boeing 747-400 aircraft and related flight equipment for delivery in 1994. The balance of the expected payments in 1994 in respect of this commitment is approximately \$154,000,000. In March 1994 the Company entered into a long-term credit arrangement with a financial institution in the United States, to finance the purchase of the aircraft, in the amount of approximately \$274,000,000 to be repaid in semi-annual installments over a period of 12 years. The credit is secured by guarantees of the Government of Israel and a bank in the United States. Funds for this credit will be recruited by the financial institution by the issuance of debentures to investment institutions in the United States in the American capital market.

The Company has purchased options on two 747-400 aircraft for delivery by 1997, on account of which it has paid \$1,120,000.

In March 1994 the Company decided to realize one of these options and entered into an agreement to purchase an aircraft in the amount of approximately \$130,000,000 for delivery in May 1995.

(2) Commitments to operate feeder flights  
-----

The Company has an agreement with N.A.A., whose main business is to operate internal feeder flights in the United States. Under this agreement the Company has guaranteed N.A.A.'s lease obligations on a Boeing 757 aircraft until the end of April 2000 - (c) below.

(b) Outstanding Claims  
-----

Various claims have been presented against the Company in the ordinary course of business. Adequate provision, based on the opinion of the Company's legal counsel, has been included in the financial statements in respect of these claims.

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(c) Guarantees  
-----

The following guarantees were in effect at the date of the financial statements:

|   | <u>\$ thousands</u> |
|---|---------------------|
| Guarantees by the Company:  |                     |
| - to secure liabilities of N.A.A. to operate feeder flights - see (a) above   | 1,317               |
| - to secure loans to employees  | 3,443               |
| - to aviation authorities, customs authorities and others   | 1,392               |
| - to banks in respect of travel agency operations   | 1,108               |
| Guarantees by Teshet:   |                     |
| - to banks, to authorities and others to secure banking and commercial credit facilities for its subsidiaries and for El Al | 1,925               |
| - to the customs authorities and to the International Air Transport Association (IATA) in unlimited amounts                 |                     |

(d) Liens on bank deposits  
-----

To secure its liabilities to banks the Company registered liens on bank deposits in dollars totalling \$15,550,000 and on the waiver of rights to amounts collected from customers in Israel.

NOTE 16 - TRANSACTIONS WITH RELATED PARTIES

State of Israel (main shareholder of the Company)

The expenses of the Company include payments to the State of Israel for services at Ben-Gurion Airport and participation in the State's expenses in providing security services.

Regarding the use of aircraft and flight equipment owned by the State, see Note 6(c).

The Company carries passengers and cargo for the State of Israel in the ordinary course of business at tariffs determined from time to time.

It is not possible to determine the effect of the above transactions on the Company's operating results.