

**ELECTRA REAL ESTATE LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2007**  
**(CONVENIENCE TRANSLATION INTO U.S. DOLLARS)**

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**ELECTRA REAL ESTATE LTD.**

**REPORT OF THE BOARD OF DIRECTORS  
FOR THE PERIOD ENDED JUNE 30, 2007**

The Board of Directors of Electra Real Estate Ltd. is pleased to submit herewith the financial statements of the Company and its subsidiaries ("the Company") for the period of six months ended June 30, 2007.

This report should be read in conjunction with the Company's annual financial statements (including its Report of the Board of Directors as of December 31, 2006).

The Company's activities are conducted through the Company and its subsidiaries. See also the Report on the Business Description of the Company as of December 31, 2006.

**The attached financial statements are presented in conformity with international financial reporting standards (IFRS)**

**A. The Company and its Business Environment**

The Company and its investees ("the Group") are engaged in the real estate industry in Israel and overseas, mainly in yielding commercial real estate, as well as in initiated residential real estate activity, directly and through companies it owns.

Within the framework of its activity, the Group focuses on the acquisition, leasing, set up, improvement and sale of yielding commercial real estate. As of the date of the financial statements the Group holds, in Israel and abroad, 96 assets including 86 yielding assets and 10 assets in various stages of development and construction as well as 9.9% in 63 hotels across Britain, as follows:

<b>Country</b>	<b>Yielding assets</b>	<b>Nature of asset</b>
Israel	17	13 Yielding assets and 4 assets under construction
Britain	6 63	Yielding assets Hotels (Company's share- 9.9%)
Canada	15	Yielding assets
USA	8	7 Yielding assets and one asset that is being earmarked for conversion and sale as condo units
Germany	36	34 Yielding assets and two assets under construction
Switzerland	6	2 Yielding assets and four assets under construction
Holland	6	Yielding assets
India	2	Assets under construction

Total area and average occupancy rates of yielding assets (including Company's share in assets of affiliates) – 1,020,000 sq. m. and 95%, respectively.

**A map outlining the Company geographic areas of activity is set forth below:**

Canada	-1
USA	-2
Britain	-3
Holland	-4
Germany	-5
Switzerland	-6
Israel	-7
India	-8



**Significant events and changes in the Company's inventory of properties:**

(including properties included in full consolidation, proportional consolidation, affiliated companies and others)

**During the period (six months end June 30, 2007):**

- ✓ Acquisition of 24 yielding properties
- ✓ Acquisition of 9.9% from 47 hotels throughout Britain
- ✓ Acquisition of 2 plots of land for construction in India and land for construction in Israel
- ✓ Acquisition of property for construction in Switzerland
- ✓ Acquisition of an interest in land in London which, until that date, was under a lease (on the land owned by the Company)
- ✓ Sale of properties (3 in USA, 1 in England, 1 in Israel)

The Company's share in all the properties acquired, net of assets sold in the period, amounts to \$ 870.8 million.

**After the period:**

- ✓ Acquisition of 19 yielding properties (including 17 properties in Cologne)
- ✓ Acquisition of 25% from HGI
- ✓ Acquisition of land for construction in India
- ✓ Sale of property in London

The Company's share in all the properties acquired, net of assets sold in the period, amounts to \$ 400.1 million.

## Stock exchange indices

The Company's shares, Series A debentures and options are listed for trading on the Tel Aviv Stock Exchange. The stock exchange indices in which the Company is included are the TA 100 index, the TA 75 index and the Real Estate 15 index.

## Credit rating

The Company's debentures have been rated by Maalot - The Israel Securities Rating Company Ltd. at (A+). The rating relates to the Series A and B. Details on the Company's debentures are as follows:

<b>Series issued</b>	<b>Date of issue</b>	<b>Nominal financial value (In thousands)</b>
Series A debentures – traded on the stock exchange	Aug 2005	NIS 340,000 (\$80,018.8)
Series B debentures – Issued to institutions	September 2006	NIS 167,714 (\$39,471.4)

Subsequent to the balance sheet date, the Board of Directors of the Company approved an additional mobilization of Series C debentures to institutional entities totalling NIS 400 million (approximately US\$ 94.1 million). The execution of the issue is contingent on the crystallization of commercial conditions.

Subsequent to the balance sheet date, Maalot - The Israel Securities Rating Company Ltd. approved a rating of (A+) for a further series of debentures amounting to NIS 350 million (approximately US\$ 82.4 million). The Company has not yet decided on the date of the issue of the Series C debentures.

## Activity in Israel

The Company holds eight office buildings held at different percentages ranging and five office floors in different locations in Israel. The assets are leased to various tenants for different periods expiring between 2007 and 2020. In addition, the Company holds six assets under construction.

## Transactions during the period:

1. **On May 9, 2007**, the Audit Committee and the Board of Directors of the Company approved a transaction for the acquisition of 25% of the rights in plot of land situated in Yigal Allon Street, Tel Aviv, and for the construction of a project of a 45-storey office block, as a joint transaction with Electra Industries Ltd., a wholly-owned subsidiary of Electra Ltd. (hereinafter, "Electra"), the controlling shareholder in the Company, and Amcor (hereinafter, "the seller"). Pursuant thereto, each will acquire 25% of the right in the plot from the project, as aforesaid, from the seller (hereinafter, "the Project").

The plot is a tract of land leased under a perpetual lease from Israel Lands Administration and from the Tel Aviv Municipality. The Project is a real estate project for the construction of an office block and commercial areas with an area of 54,000 square meters, a car-park with 1,200 parking spaces. The office space that will be built is intended for rental and for sale.

Each party will bear its proportional share in the expenses of the Project. The construction of the Project will be financed through bank funding. Each party to the transaction will make available collateral and shareholders' equity to support the bank funding as necessary, without cross-guarantees and according to its proportional share.

The proceeds in respect of the rights in the plot were determined as a derivative of the various types of areas of the Project. The Company's share in the proceeds in respect of the rights in the plot amounts to US\$ 11.5 million. A mechanism has been determined between the parties for adjusting proceeds for the actual measurement of the types of the areas.

The project will be constructed by Electra Construction Ltd., a wholly-owned subsidiary of Electra, as a key contractor on the basis of predetermined specification. The total cost of construction is estimated at US\$ 70.6 million. The prices, which do not include value added tax, are linked to the basic index of building inputs. A mechanism has been determined between the parties for reducing the proceeds, in

the event of a delay in completing the performance and remuneration in respect of complying with timetables.

Each party will bear the costs of constructing the Project according to its proportional share in the plot (i.e., Electra Industries – 25%, the Company – 25% and the Seller – 50%).

The Company anticipates that the construction of the Project will take around 40 months. The cost of the Project to the Company, before finishing work, is estimated by the Company at US\$ 35.3 million and US\$ 40.0 million including finishing work, including the Company's share in acquiring the plot.

After the building is occupied, it will be managed through a management and maintenance company to be agreed by the parties.

- 2. Sale of Ayalon Business Centre, Tel Aviv** – In June 2007 – A wholly owned subsidiary holding a 50%-stake in a property entered into an agreement to sell its entire holdings in the property. The transaction is subject to the fulfilment of a number of pending conditions. If those conditions are not fulfilled through May 31, 2008, the Company, together with the partner, will be entitled to cancel the sale agreement. The anticipated proceeds from the transaction (100%) is \$ 101.2 million and the Company's share is \$ 50.6 million. The results of the sale are included within the framework of the adjustment of the fair value of the Company's assets in accordance with international accounting principles (IFRS).

In the June 30, 2007 financial statements, the asset is included within current assets.

### **Foreign activity**

The Company operates in the United States, in most of its investments in Europe through Electech Real Estate B.V. (hereinafter: "Electech"), an overseas wholly owned subsidiary, which centralizes, supervises and advises on the activities of the companies held by it overseas.

### **Britain**

On the balance-sheet date the Company held, through investees abroad, five commercial buildings in Britain, leased for periods expiring between 2010 and 2020, held at percentages of 75% and 100%. An additional building is held through an affiliate (49%) and is accounted for by the equity method. It is leased to two tenants for periods expiring in 2015 and 2028.

### **Transactions during the period:**

- 1. Sale of property in Lime Street, London - In March 2007**, a foreign company, in which the Company has a 75%-holding, concluded a transaction to sell its rights in a property. The net proceeds attributable to the Company as a result of the sale were £ 1.2 million. The gain arising on the sale is included within the framework of the adjustment of the fair value of properties in accordance with international principles (IFRS) in previous years.
- 2. Acquisition of rights to land in Buckingham Gate, London - In March 2007** - An overseas company in which the Company holds 75% of the rights to a office building, which is leased to the British government under a rental agreement through 2020, acquired the ownership rights to land (100%) for £ 5 million, plus related expenses of £ 0.4 million. Through that date, the land was under a lease
- 3. Acquisition of Marriott Hotels, Britain - In March 2007** - An overseas In March 2007, the Company, through foreign companies (hereinafter, "the foreign companies") in which the Company holds, through foreign companies, 9.9% (hereinafter, "the acquiring companies") concluded an agreement to purchase the entire share capital of the foreign companies holding 47 hotels managed by the Marriott chain throughout the United Kingdom (hereinafter "the hotels"), 39 of the hotels in England of which 5 are in London, 5 in Scotland, and 3 in Wales. The hotels are divided into business tourist hotels, golf hotels and tourist hotels, and they include, in total, 8,456 rooms. The acquisition is of the hotels with

their entire contents, including all of the furniture and equipment contained therein. A management agreement has been signed by the acquiring companies and the Marriott chain (hereinafter, "the management agreement") whereby the hotels will be managed by the Marriott chain for 30 years with Marriott having an option to extend the agreement for a further 10 years under the conditions that have been agreed. The management agreement relates to the amount of the management fees and the amounts of investment and maintenance. Pursuant to the management agreement, the employees will continue to be employed by the Marriott chain. The management agreement further provides that if Marriott chain does not fulfil the tests of results relating mainly to profitability and occupancy of the hotels, the acquiring companies will be entitled to discontinue the management of the hotels by Marriott. It should be noted that Marriott was not granted an exit right from the management. According to a forecast carried out by independent experts, the average net revenues from the hotels (100%), after deducting all of the expenses for the next 10 years (before financial expenses) is £ 78 million for each year. In order to finance the acquisition, a non-recourse long-term fixed-interest loan of £ 856.1 million was approved for the acquiring companies. In addition, the bank undertook to finance additional investments for the acquiring companies that will be required in the coming years in the amount of up to £ 62.2. The bank financing the acquisition will be entitled to 20% of the gains on the sale of the properties in the future. In computing the aforementioned gains, current receipts will not be taken into account. Also, not taken into account is an amount reflecting the increase in the value of 2.5% per annum in respect of each year until the sale. The total shareholders' equity required from the foreign companies (100%) for the acquisition includes all of the related costs, i.e., £ 207.2 million. The share of the foreign companies of the Company in the shareholders' equity is £ 20.5 million.

The data set forth above regarding the scope of revenues including from the project and the additional financing is prospective information. This information is based on data on costs, work-programs and sales forecasts of the Company, correct as of the balance sheet date, and is subject to external influences due to factors that are not dependent on the Company, for example, costs in the price of labour and raw materials, changes in currency rates, demand, etc. Accordingly, it is possible that the aforesaid actual data will differ from the Company's estimates, as mentioned above.

#### **Transactions after the balance sheet date:**

1. **Sale of property in Jermyn Street, London** – An overseas company in which the Company has a 49%-stake, has completed a transaction for the sale of its right in the property. The sold property is an office block, with an area of 2,600 sq. mtrs, the rights in which were acquired by the subsidiary in October 2002 at the price of the property (100%) of £ 12.7 million. The aggregate proceeds from the sale of the property (100%) before expenses are £ 19.3 million, and after sales and related expenses is £ 18.7 million. The subsidiary's share in the proceeds is £ 9.16 million. The subsidiary's share in the total anticipated gain before tax in respect of the sale of the property, after all of the costs involved in executing the sale, is £ 2.9 million, of the aforesaid gain, a gain of \$ 4.3 million was included within the revaluations if yielding properties made by the Company in the financial statements in previous periods.

And the balance of the gain, totalling \$ 1.7 million is included as revenue from the adjustment of fair value in the statement of operations for the six-month period ended June 30, 2007. The total net cash flow provided for the overseas subsidiary in respect of the sale of the property, after the repayment of the loan and the rest of the related expenses, is £ 4.3 million.

2. **Acquisition of RBC's Building, London** - In August 2007, an overseas wholly owned subsidiary of the Company acquired 60% of the rights in a yielding property in London, England.

The acquisition price of the property (100%) before expenses was £ 134.7 million, plus related expenses of £ 9.1 million.

The property is a luxury office block, located in the business centre in London, England, with a net aggregate area available for rental of 17,500 sq. mtrs., with building rights for the construction of approximately 2,000 sq. mtrs., net, for rental.

The building is fully leased to the Royal Bank of Canada (RBC), which is the largest bank in Canada, in a lease agreement through March 2012, without an exit option. The building is used by RBC as its headquarters in London.

The gross annual rental (100%) is £ 7.85 million and net of ground leasing cost, the net annual rental (100%) is £ 7.53 million. All of the current management and maintenance expenses in respect of the property are paid by the tenant.

To finance the transaction (100%), an overseas financial institution has extended a loan of £ 120 million, at fixed interest for a seven-year period. Of this amount, £ 7.0 million has been placed in an interest-bearing deposit, which will be released when certain conditions are fulfilled. The loan is secured by a first-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.

To finance the transaction (100%), Another overseas financial institution has extended a loan of £ 14.9 million, at fixed interest for a three-year period, plus an exit commission, the amount of which is dependent on the gain arising from the project on its future sale. The loan is secured by a second-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.

The overseas subsidiary is in preliminary negotiation with RBC for extending the rental agreement for a period beyond the current rental period. The Company estimates that if the lease period is indeed extended for a further lengthy period, it is likely to result in a significant improvement in the value of the property. It should be clarified that the Company's assessment in relation to the likely improvement in the value of the property, if the lease period is indeed extended, as aforesaid, comes within the definition of prospective information. The Company's assessment in relation to the expected improvement in the value of the property is based on similar properties (inter alia, in location and in the quality of the tenant) leased for lengthy lease periods. The Company estimates that similar properties as aforesaid are being sold at a value greater than that determined in the agreement to acquire the property – subject to the fact that a lease contract that will be signed for a period longer than the current lease period. However, it is possible that the Company's assessment in relation to the increase in the value of the property will not be realized, inter alia, because of future growth in the rate of return required by investors in the yielding property market in the United Kingdom, impairment to the financial strength of RBC and a reduction in rental prices of yielding property in London.

## **Canada**

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in 15 commercial buildings in Canada that are held at various rates ranging from 55% to 100% in lease contracts for periods which ends between 2007 and 2022.

### **Transactions during the period:**

1. **Acquisition of property in 90 Sheppard Street, Toronto - In January 2007**, a wholly-owned foreign subsidiary of the Company acquired 55% of the rights to a yielding property and adjacent land in the city of Toronto, Canada. The acquisition price of the yielding property (100%) before expenses is Can\$ 51 million, plus Can\$ 1.6 million of related expenses. The property is a seven-storey office block located in the city of Toronto, Canada. The aggregate net area for rental is approximately 24,600 square meters, with the addition of 500 parking places. The building is leased to various tenants for various periods, with the main tenants being the Canadian government, Heinz Foods, EDS Technologies and Shell Energy Company. The present rate of occupancy is around 99%. Average annual gross rent (100%) is an aggregate of Can\$ 8.5 million. After deducting management and maintenance expenses, The net average annual rent is Can\$ 4 million.

In addition, land adjacent to the property, representing part of the site of the property was acquired. The price of the adjacent land (100%) is Can\$ 2 million. According to the existing approvals, it is currently permitted to construct on the land approximately 10,500 square meters for offices or housing. A foreign financial institution has extended a loan to finance the transaction totalling Can\$ 37 million at a fixed interest rate of 5.1% for a period of five years. The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- Acquisition of 3 properties, Metro, Mintreal - In March 2007**, a wholly-owned foreign subsidiary of the Company acquired 90% of the rights to a yielding property in the city of Montreal, Canada. The acquisition price of the yielding property (100%) before expenses was Can\$ 37.75 million, plus Can\$ 1.25 million of related expenses. The property is a complex comprised of three adjacent office blocks located in the city of Montreal, Canada. The total net area for rent is 28,800 square meters, as well as 435 covered parking places. The property is leased to various tenants for various periods. The present occupancy rate is around 87%. Annual gross rent (100%) is an aggregate of Can\$ 6.7 million, after deducting management and maintenance expenses. The net average annual rent is Can\$ 3.1 million. A foreign financial institution has extended a loan to finance the transaction (100%) totalling Can\$ 30 million at a fixed interest rate of 5.41% for a period of three years. In addition, the financial institution undertook to extend a further Can\$ 4 million on fulfilling certain conditions. The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

#### **Transactions after the balance sheet date:**

**Refinance in 3 properties in Montreal - In August 2007**, The Company has carried out a refinancing of three yielding properties. A financial institution in Canada has extended a refinancing loan (100%) of Can\$ 54.4 million for a 10-year period at fixed interest. Net cash flow provided to the Company is Can\$ 26 million. The loan is secured by a first-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.

#### **USA**

At the balance-sheet date, through its foreign subsidiary, Electech Real Estate INC. ("Electech INC"), the company holds rights in two buildings in USA that are held at rates of 60%.

In addition, the company holds six assets through companies that accounted by the equity method. Including one asset that is being earmarked for conversion and sale as condo units.

#### **Transactions during the period:**

- Acquisition of property in 2 North LaSalle Street, Chicago - In February 2007**, a wholly-owned foreign subsidiary of the Company, Electech INC, acquired 60% of the rights to a yielding property in the city of Chicago, U.S.A. The acquisition price of the property (100%), before expenses, is US\$ 152.7 million, plus related expenses of US\$ 3.6 million. The building is a prestigious (Class A) 26-storey office tower situated in the business centre in the city of Chicago, in the state of Illinois, U.S.A. The net aggregate area for rent is 66,300 square meters. The building is leased to various tenants for various periods. The present rate of occupancy is around 99%. Average annual gross rent (100%) is an aggregate of US\$ 20 million. After deducting management and maintenance expenses, The net average annual rent is US\$ 10.4 million. A financial institution in the United States has extended a loan to finance the transaction totalling US\$ 127.4 million, representing around 83% of the price of acquiring the property, at a fixed interest rate of 5.56% for a period of 10 years. The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

2. **Sale of State House Building, Connecticut - In February 2007**, a foreign subsidiary of the Company, Electech INC, holding in final combination approximately 44.5% in a property in the city of Connecticut, U.S.A, sold its holdings in the property. The property sold was an office block with an area of 78,500 square meters, the rights in which were acquired by the subsidiary in November 2005. The aggregate proceeds from the sale of the property (100%) after selling and related expenses were US\$ 92.4 million and the subsidiary's share was US\$ 41.18 million.  
The subsidiary's total share in the aggregate pre-tax profit in respect of the sale of the property, was US\$ 5.2 million, which was recorded in the affiliated company's statements for the year ended December 31, 2006 mainly as revenues from revaluation.  
The total net cash flows attributable to the subsidiary in respect of the sale of the property, after repayment of the loan and the rest of the related expenses, are US\$ 17.8 million.
3. **Acquisition of property in 111 Washington Street, Chicago - In March 2007**, a wholly-owned foreign subsidiary of the Company, Electech INC, acquired 60% of the rights in a yielding property in the city of Chicago, U.S.A. The acquisition price of the property (100%) before expenses was US\$ 79.5 million, plus related expenses of US\$ 2.7 million. The building is a 22-storey office block listed for historic preservation situated in the business centre in the city of Chicago, Illinois, U.S.A. The net aggregate area for rental is 53,900 square meters. The building is leased to various tenants for various periods. The present rate occupancy of the property is 87%.  
Average annual gross rent (100%) is an aggregate of US\$ 13.3 million, after deducting management and maintenance expenses. The net average annual rent (100%) is US\$ 6 million.  
A financial institution in the United States has extended a loan to finance the transaction (100%) in the amount of US\$ 61.1 million, with fixed interest at a rate of 5.71% for a three-year period.  
The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.
4. **Sale of 2 properties in the city of Baltimore - In May 2007**, a foreign subsidiary of the Company, Electech INC, holding 72% of the rights in one property and 63% of the rights in a second property in the city of Baltimore, U.S.A, Sold its holdings in corporations which hold those properties. The properties that were sold were two office blocks with an aggregate area for rental (100%) of 53,200 square meters, the rights to which were purchased by the foreign subsidiary towards the end of 2004. The aggregate proceeds from the sale of the properties (100%), net of selling expenses amounted to US\$ 76.6 million, and the foreign subsidiary's share was US\$ 49.75 million. The foreign subsidiary's share in the pre-tax aggregate pre-tax profit in respect of the sale of the properties was US\$ 3 million. This gain was included in the revaluation of yielding properties performed by the Company in its financial statements in previous reporting periods. The total net cash flows attributable to the foreign subsidiary in respect of the sale of the properties, after repayment of the loan and the rest of the related expenses, are US\$ 16.5 million.

**Transactions after the balance sheet date:**

**Acquisition of Harbor Group International - In July 2007**, an overseas wholly owned subsidiary of the Company acquired 25% of the Harbor Group International (HGI) for consideration of US\$ 23.75 million, at a company value (100%) of US\$ 95 million. The overseas company has an option to purchase a further 5%-stake in HGI for two years from the date of completing the transaction.

Of the consideration, US\$ 14 million was paid on completion of the transaction, US\$ 4.875 million will be paid after 12 months and the balance of US\$ 4.875 million will be paid after 24 months. The deferred payments will be paid in dollars without linkage or interest.

The overseas subsidiary has the right to appointment directors on its behalf according to its relative share in the HGI.

HGI, whose headquarters are in Norfolk, Virginia, U.S.A., is engaged in the purchase, improvement, management and sale of yielding property, mostly in the United States. HGI acts as a managing partner in all of the properties in its portfolio, and is entitled to regular management fees and participate in the gains deriving from the properties.

## Germany, Holland and Switzerland

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in thirty eight buildings that are held at rates of 50% - 100%. An additional 4 properties held through affiliates at rate of 45%. In addition, the Company holds six properties under various construction stages.

### Transactions during the period:

1. **Acquisition of 3 properties in Saarbrücken and in Nurnberg - In February 2007**, a wholly-owned foreign subsidiary of the Company acquired 70% of the rights in a portfolio including two yielding properties in the city of Saarbrücken and a further yielding property, an hotel in the city of Nuremberg, Germany.

The acquisition price of the properties in Saarbrücken (100%) before expenses was € 72.5 million, and the acquisition price of the hotel (100%) before expenses was € 4.6 million. The total cost of the portfolio (100%) before expenses was € 77.1 million, and in addition, related expenses of € 4 million. The properties in the city of Saarbrücken are two office blocks located in the business centre of the city. Their net aggregate area for rent is 62,700 square meters, as well as around 1,000 covered parking spaces. The present rate of occupancy of these two properties is around 95%. Approximately 90% of the area of these two properties is leased to Deutsche Telekom and Deutsche Post for various periods ending in 2011 – 2017. The property in the city of Nuremberg is a 125-room hotel. The hotel is leased in full to a local hotel management company under a 10-year contract (through 2017) with no exit option.

Net annual rental of the properties in Saarbrücken (100%) is an aggregate of € 6.1 million, and the net annual rental of the hotel in Nuremberg (100%) is an aggregate of € 0.4 million.

The total net annual rental of the three properties (100%) is an aggregate of € 6.5 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of these properties are paid by the tenants. As a result of the presentation of these two properties at their fair value at the balance sheet date.

A financial institution in Germany has extended a loan to finance the transaction in the amount of € 69.15 million, representing 90% of the acquisition price of the properties, with fixed interest at a rate of 5.34% for a five-year period. In addition, the bank has undertaken to extend a further loan of € 5 million on fulfilling certain conditions.

The loan is secured by a first-priority fixed lien on the properties and receipts from the properties, with no right of recourse for the Company.

2. **Acquisition of Ernst & Young, Frankfurt - In February 2007**, a wholly-owned foreign subsidiary of the Company acquired 70% of the rights in a yielding property in the city of Frankfurt, Germany. The acquisition price of the property (100%) before expenses was € 62 million, plus related expenses of € 4.5 million. The building is a 22-storey office block situated in one of the business centres in the city of Frankfurt, Germany. The total net area for rental is 18,400 square meters, as well as around 400 covered parking spaces. The building is fully rented out to Ernst & Young, Accountants, under a rental contract through the end of 2015, with no exit option. The net annual rental (100%) is € 4.1 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of these properties are paid by the tenant.

A financial institution in Germany has extended a loan to finance the transaction (100%) in the amount of € 59 million, with fixed interest at a rate of 5.14% for a five-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

3. **Establishment of Rue Ferdinand, Geneva, Switzerland - In March 2007**, a wholly-owned foreign subsidiary of the Company acquired 50% of the rights to a yielding property in the city of Geneva, Switzerland. The acquisition price of the yielding property (100%) before expenses was Swiss Francs 17.7 million, plus related expenses of Swiss Francs 1.1 million. The property is a 7-storey office block

located in the business centre in the city of Geneva, Switzerland. The net aggregate area for rental is 2,500 square meters. The building is currently mostly empty, and the partners intend to renovate and extend the building, at an estimated cost of Swiss Francs 4 million, and lease it in a process that is expected to continue for 6-12 months. As of the date of the report, lease contracts for the occupation of 60% of the area of the building had been signed, with the remaining area under negotiation. The building is expected to be fully occupied at the end of 2007.

A financial institution in Switzerland has extended a loan to finance the transaction (100%) totaling Swiss Francs 10.7 million at a variable interest rate, currently 2.90%, for an unspecified period available for repayment at any given time at no cost.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

4. **Acquisition of TechnologiePark , Cologne - In March 2007**, a foreign company, held at a rate of 42.5 % by a wholly-owned subsidiary of the Company and 42.5% by a foreign company from the Property and Building Ltd. Group, acquired the rights to a yielding property in the city of Cologne, Germany. The acquisition price of the yielding property (100%) including expenses was € 106.7 million. The property is a technological park, containing 15 buildings close to the city of Cologne, Germany. The aggregate area of the park is 127 dunams, and the net area for rental is 72,000 square meters, as well as 1,600 parking spaces. In addition, there are additional building rights in the park for 50,000 square meters. The park is fully leased to various tenants for various periods, and is managed by a management company specialized in the area of technological park management. Annual gross rent (100%) is an aggregate of € 7.6 million, after deducting management and maintenance expenses. The net annual rent (100%) is € 7.25 million. The rental contracts include an incremental mechanism for the rent in accordance with the consumer price index in Germany.

A financial institution in Germany has extended a loan to finance the transaction (100%) totalling € 93.7 million at a fixed interest rate of 5.25% for a five-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

5. **Acquisition of AOK building, Schwerin - In March 2007**, a wholly owned foreign subsidiary of the Company acquired 100% of a yielding property in the city of Schwerin, Germany. The acquisition price of the property before expenses was € 30.9 million, plus related expenses of € 2.4 million. The property is 4-storey office block situated in the city of Schwerin, Germany. The net aggregate area for rental is 14,560 square meters, as well as 200 covered parking spaces. The building is fully rented to a government medical insurance company (AOK Insurance) in a rental contract through June 2022 (about 15 years) with no exit option. The net annual rent is an aggregate of € 2.0 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of the property are paid by the tenants.

A financial institution in Germany has extended a loan to finance the transaction totalling € 27.8 million, representing approximately 90% of the acquisition price of the asset, at fixed interest at a rate of 5.25% for a seven-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

6. **Acquisition of Dresdner Bank, Frankfurt - In April 2007**, a wholly-owned foreign subsidiary of the Company acquired 60% of the rights in a yielding property in the city of Frankfurt, Germany. The acquisition price of the property (100%) before expenses was € 200 million, plus related expenses of approximately € 17 million. The property is brand new, luxury office block, whose construction was completed in 2003, situated in the business centre of the city of Frankfurt, Germany. Its net aggregate area for rental is 35,500 square meters, as well as 350 covered parking spaces. The building is fully leased to Dresdner Bank, which is one of largest banks in Germany and belongs to the European financial group, Allianz, in a rental contract through June 2013 with no exit option. The tenant has an option to extend the rental period for a further 5 years. The net annual rent (100%) is an aggregate of € 14million. There is an incremental mechanism for the rent in accordance with the consumer price

index in Germany. All of the current management and maintenance expenses in respect of the property are paid by the tenant.

An overseas financial institution has extended a loan to finance the transaction (100%) totalling € 193.5 million at fixed interest at a rate of 5.43% for a seven-year period. Of this amount, € 5.0 million was placed as a deposit, which will be released on fulfilling certain conditions. The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

Another financial institution extended a further loan for the transaction (100%) totalling € 11.8 million at a variable interest rate of LIBOR + 2% for a seven-year period, plus an exit commission, the amount of which is dependent on the gain to be generated in the project on its future sale.

The loan is secured by a second priority fixed lien on the property and the receipts from the property, with no right of recourse for the Company.

7. **Acquisition of Saturn, Frankfurt - In May 2007**, a wholly owned foreign subsidiary of the Company acquired 60% of the rights in a yielding property in the city of Frankfurt, Germany. The acquisition price of the property (100%) including expenses was € 40 million. The property is a building combining commercial areas and 62 housing units, situated in one of the main commercial streets in the city of Frankfurt, Germany. The net aggregate area for rental is 24,600 square meters, as well as 200 covered parking spaces. The commercial area, constituting approximately 90% of the entire area of the property and of the revenues therefrom, are fully leased to a retail chain of the Metro group, in a rental contract through December 2013 with no exit option. The housing units are fully leased to various tenants. The net annual rent (100%) is an aggregate of € 2.53 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of the property are paid by the tenants.

An overseas financial institution has extended a loan to finance the transaction (100%) totalling € 32.5 million at a variable interest rate, currently 5.18%, for a five-year period, with maximum interest (cap) protection, not to exceed 5.40%.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

8. **Acquisition of portfolio including 10 properties, Netherlands and Germany - In May 2007**, a wholly owned foreign subsidiary of the Company acquired 70% of the rights in portfolio including 10 yielding properties, of which 6 were located in the Netherlands, and 4 in Germany. The acquisition price of the portfolio (100%) including expenses was € 278.9 million. All of the properties are office buildings with a total area available for rental of 103,600 sq. mtrs., along with approximately 1,700 covered car-parking spaces. The properties are 100% occupied. The properties in the Netherlands are four buildings located close to Schiphol Amsterdam Airport, one property in Rotterdam city centre and one in the centre of The Hague. The aggregate area of the properties is 47,700 sq. mtrs. The properties in Germany included one in the centre of the city of Berlin one in Hanover, one in Munich and one in Dortmund. The aggregate area of these properties is 55,900 sq. mtrs. The properties in the portfolio are leased to various tenants and for various periods with the principal tenants being the accounting firm of PwC, the Dutch communication company, KPN, the Municipality of Dortmund, the printing corporation, Kyocera and the Dutch bank, IDM Bank. The net annual rental (100%) received from the ten properties amounts to € 17.65 million. The lease contracts include a clause providing a mechanism for increasing the rent in accordance with the consumer price indices in the Netherlands and Germany. All day-to-day management and main expenses in respect of these properties are paid by the tenants.

To finance the transaction (100%), an overseas financial institution has extended a loan of € 256.1 million with a fixed interest rate of 5.40% for a period of 5 years. Of this amount, € 3.9 million has been placed in a deposit, which will be released when certain conditions have been fulfilled. The loan is secured by a first-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.

Also, to finance a transaction (100%), another overseas financial institution has extended a further loan totalling € 12.8 million with a variable interest rate of LIBOR + 1.75% for a period of 5 years, with an exit commission whose amount is dependent on the gain arising from the project when it is sold in

the future. The loan is secured by a second-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.

#### **Transactions after the balance sheet date:**

- Acquisition of BMW property, Munich - In July 2007**, a overseas wholly-owned company of the Company acquired 50% of the rights to a yielding property in Regensburg, near Munich, Germany. The acquisition price of the property (100%) before expenses is €45.1 million, plus related expenses of €3.1 million. The property is used as plant for the manufacture of spare parts and as logistical centre for the producer of BMW motor vehicle company in the city of Regensburg, near Munich, Germany. The net aggregate area available for rental is approximately 43,000 sq. mtrs. The building is fully leased to BMW under a rental contract through December 2033, with an option for an early exit in December 2018. The net annual rent (100%) is €3 million. The rent is subject to a mechanism for an increase in accordance with the consumer price indices in Germany. All day-to-day management and main expenses in respect of these properties are paid by the tenants.

To finance the transaction (100%), a financial institution in Germany has extended a loan of €40.85 million with a fixed interest rate of 5.37% for a period of 7 years.

The loan is secured by a first-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.
- Acquisition of 17 properties, Cologne - In August 2007**, an overseas wholly owned subsidiary of the Company acquired 70% of the rights in a portfolio including 17 yielding properties, in the city of Cologne, Germany. The purchase price of the portfolio (100%) includes expenses is €191 million. 15 properties are office blocks, one property is a logistical centre and one property is an hotel. The properties are located in the city of Cologne, Germany, and the aggregate area available rental is 122,100 sq. mtrs., with a further 2,100 covered parking spaces. The properties are leased to various tenants and for various periods, The current occupancy of the properties is 100%, and is guaranteed for 5 years. The gross average annual rent (100%), received from all 17 properties, is a total of €12.9 million, and after deduction of management and maintenance expenses, the net average annual rent (100%) is €12.6 million. The lease contracts include a clause providing a mechanism for increasing the rent in accordance with the consumer price index in Germany.

To finance the transaction (100%), an overseas financial institution has extended a loan of €166.3 million, at a fixed rate of interest for a five-year period. The loan is secured by a first-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.

#### **India**

##### **Transactions during the period:**

- Acquisition of land in Hyderabad - In January 2007**, the company in Mauritius, through an Indian subsidiary, entered into a memorandum of understanding for the acquisition of land on an area of 140 dunams in the city of Hyderabad, India. The company in Mauritius will hold around 95% of the rights in the aforesaid venture (hereinafter, "the joint venture"), with the remainder held by the local partner. The aggregate cost of acquisition of the land amounted to approximately US\$ 23 million, with the Company's share in the acquisition amounting to US\$ 10 million, which will be financed from own resources. The joint venture intends to plan and erect buildings on the land, to be used for mixed purposes, mainly for offices and logistics, on a total area of 280,000 square meters. The joint company estimates that the aggregate cost of the project (100%) will amount to approximately US\$ 140 million. The company in Mauritius intends to finance the remainder of its investments in the project by foreign finance.
- Acquisition of land in Hyderabad - In February 2007**, the company in Mauritius, through an Indian subsidiary, acquired a plot of land of approximately 100 dunams in the city of Hyderabad, India. The company in Mauritius holds 90% of the rights in the Indian company, with the remainder held by a local partner, which will be entitled to increase its holding in the Indian company by a further 10%. The

aggregate cost of acquiring the land amounted to US\$ 30.6 million, with the subsidiary's share amounting to US\$ 13.8 million, which will be financed by own resources. The designation of the land is for housing and around 2,300 housing units can be built on it, with a total scope of 300,000 square meters. The project will be constructed in stages depending on demand and the actual marketing of the housing units. According to the assessment of the company in Mauritius, the total cost of the investment in the project (100%) will amount to US\$ 150 million. The company in Mauritius intends to finance the remainder of its investments in the project by foreign finance.

**Transactions after the balance sheet date:**

**Acquisition of land in Mysore** – A company, incorporated in Mauritius, and held at a rate of 45% by Electech through an Indian subsidiary, has entered into an agreement to purchase land on an area of 39 dunams in the city of Mysore, India, Approximately 90% of the rights in the said venture will be held by the company in Mauritius, with the balance to be held by the local partner (hereinafter: "**the joint venture**"). The aggregate cost of acquiring the land amounted to US\$ 6 million (approximately NIS 26 million) and the Company's share in the acquisition amounted to US\$ 2.7 million (approximately 11.7 million), which was financed out of its own funds. The designation of the land is residential and 390 housing units may be built on it, with a total area of 59,000 sq. mtrs. The project will be constructed in stages in accordance with demand and the actual marketing of the housing units. The company in Mauritius estimates that the total cost (100%) of the investment in the project will amount to US\$ 29 million. The company in Mauritius intends to finance the rest of its investments in the project in foreign finance.

## **B. Financial Position**

Total assets as of the balance sheet date amounted to \$2,200.0 million, compared to \$1,232.4 million at the end of 2006. The net increase (after deduction of assets sold during the reporting period in the United States and Europe) is primarily attributable the significant increase in the Company's activity and its business expansion in the markets of activity, with an investment in yielding properties in Europe, United States, Canada and India.

### **Current assets**

Total current assets as of the balance sheet date amounted to \$138.5 million, compared to \$87.5 million as of the end of 2006. Most of the increase is attributable to an increase in short-term deposits and the classification of a property designated for sale from the item, yielding properties in Israel, to current assets.

### **Long-term investments**

Long-term investments on June 30, 2007 amounted to \$244.5 million as compared with \$222.2 million on December 31, 2006.

### **Yielding assets**

Total yielding assets on June 30, 2007 amounted to \$1817.0 million as compared with \$922.7 million on December 31, 2006. The increase stems mainly from an investment in a yielding asset in Europe, USA, Canada and India.

The Company's share in the yielding assets of its affiliates as of the balance sheet date totals \$308.5 million.

### **Current liabilities**

Total current liabilities on June 30, 2007 amounted to \$213.2 million as compared with \$136.0 million on December 31, 2006. The increase is primarily attributable to the creditors in respect of new yielding properties in Europe, USA, Canada and India an increase in credit received by the Company for their acquisition.

### **Long-term liabilities**

Long-term liabilities (including long-term loans obtained to finance the acquisition of yielding assets) on the balance-sheet date amounted to \$1653.6 million as compared with \$810.2 million on December 31, 2006. The increase resulted mostly from loans obtained for investment in yielding assets in Europe, USA, Canada and India. On June 30, 2007 the bank loans, which amounted to \$1,293.0 million, constituted non-recourse loans secured by a first-tier lien on the asset and the receipts in respect thereof. The Company's share in the bank loans of its affiliates as of the balance sheet date totals \$238.4 million. These are non-recourse loans.

### **Shareholders' equity**

The Company's shareholders' equity at the balance sheet date was \$333.1 million compared to \$286.1 million at the end of 2006. See statement of changes in shareholders' equity in the financial statements.

The shareholders' equity of the Company as of June 30, 2007 includes accumulated amortization to \$13.8 million in respect of index-linked options, which were issued to the public and which are presented as a liability at their fair value in accordance with international accounting principles. On the exercise date of the options, the balance of this liability will be carried directly to the Company's shareholders' equity and the capital will be increased accordingly. Subsequent to the balance sheet date and through the date of publishing the financial statements, 1,187,073 options had been exercised, whose impact on the shareholders' equity in the third quarter of 2007 is approximately \$ 21.9 million, of which \$ 8.5 million arises from the conversion of liabilities to the item, capital, as stipulated by international standards (IFRS).

## Financial liabilities

The Company has signed a floating lien in favour of three different banks in Israel that have placed loans at its disposal. In addition, the Company has undertaken, vis-à-vis these banks, to maintain two financial criteria, as follows:

1. The shareholders' equity percentage will not fall below 12% of the Company's consolidated balance sheet at any time.
2. The shareholders' equity percentage will not fall below 30% of the Company's total balance sheet, net of loans in respect of which the borrower has no right of recourse, at any time.

As of the balance sheet date, the Company complies with the financial criteria determined.

## C. Results of operations

### Statement-of-Operations Summary, by Quarters (in thousands US dollars):

	Quarter 4-6/07	Quarter 1-3/07	Quarter 10-12/06	Quarter 7-9/06	Quarter 4-6/06
Revenues from rental fees, management fees, and other	36,940	27,794	22,328	17,778	16,073
Adjustment of fair value and results of disposal of yielding properties, net	24,001	17,693	19,933	11,363	10,061
Company's share in earnings of affiliates, net	2,342	(217)	7,212	8,812	13,326
<b>Total revenues</b>	<b>63,283</b>	<b>45,270</b>	<b>49,473</b>	<b>37,953</b>	<b>39,460</b>
Operating expenses and maintenance fees	11,401	9,695	7,949	6,540	(*) 4,450
general and administrative expenses	4,245	3,063	5,143	1,776	2,119
Financing expenses, net	17,818	11,892	7,980	6,972	6,209
Financing expenses (income) in respect of revaluation of index- linked options	(598)	3,737	2,505	3,169	269
<b>Total costs and expenses</b>	<b>32,866</b>	<b>28,387</b>	<b>23,577</b>	<b>18,457</b>	<b>15,047</b>
<b>Pre-tax income</b>	<b>30,417</b>	<b>16,883</b>	<b>25,896</b>	<b>19,496</b>	<b>24,413</b>
Income taxes	7,815	4,862	6,102	3,994	3,580
<b>Net income</b>	<b>22,602</b>	<b>12,021</b>	<b>19,794</b>	<b>15,502</b>	<b>20,833</b>
<b>Attributed to:</b>					
The Company's shareholders	22,051	12,004	19,005	15,464	20,672
Minority interests	551	17	789	38	161
<b>Net income</b>	<b>22,602</b>	<b>12,021</b>	<b>19,794</b>	<b>15,502</b>	<b>20,833</b>

(\*) Reclassified.

## Revenues

Total revenues of the Company in the first half of 2007 (hereinafter, "the reporting period") amounted to \$108.5 million, compared to \$69.3 million in the corresponding period last year. Total revenues of the Company in the second quarter of 2007 amounted to \$63.3 million, compared to \$39.5 million in the corresponding quarter last year.

### **Revenues from rent, management fees and other income**

The Company's revenues from rent in the financial period amounted to \$ 64.7 million, compared to \$ 31.3 million in the corresponding period last year. In the second quarter of 2007, these revenues amounted to \$ 36.9 million, compared to \$ 16.1 million in the corresponding period last year. Most of the increase in rental fees is attributable to the purchase of new properties in the Company's markets of operation, as well as an increase in the shareholding percentage in affiliated companies, which in 2007 are presented as companies using the proportional consolidation method.

### **Income from the adjustment of fair value and sale of yielding properties, net**

The Company's income from the adjustment of fair value and the sale of yielding properties, net in the financial period amounted to \$ 41.7 million, compared to \$ 21.8 million in the corresponding period last year. In the second quarter of 2007, this income amounted to \$ 24.0 million, compared to \$ 10.1 million in the corresponding period last year. The increase in the adjustments is primarily attributable to the adjustment in fair value executed by the Company in its properties in Germany, Canada and Israel.

### **Financing expenses**

In the report period, financing expenses totaled \$32.9 million, compared with \$15.2 million in the same period last year. The financing expenses in the report period include \$23.0 million for long-term loans taken from overseas financial institutions to finance yielding assets overseas. These loans are secured by a fixed lien on the buildings. The Company did not guarantee, nor did it furnish additional collateral for these loans. The increase in financing expenses is due mainly to the increase in long-term loans taken to acquire new assets.

### **Financial expenses in respect of revaluation of index-linked options issued to the public**

As a result of the transition to international financial reporting standards (as outlined in the Report of the Board of Directors as of December 31, 2006), the Company presents complex financial instruments at their fair value. Accordingly, index-linked convertible options issued to the public in August 2005 are presented as liabilities of the Company.

In accordance with the requirements of the international principles, the Company recorded an expense in the statement of operations under the heading of "revaluation of index-linked options" in the reporting period totalling \$3.1 million, compared to \$3.1 million in the corresponding period last year. Total cumulative financial expenses charged to the Company's statement of operations as of June 30, 2007 in respect of this item amounted to \$13.9 million. This expense has no impact on the Company's cash flows.

### **Net income**

The net income of the Company in the reporting period amounted to \$34.6 million, compared to \$32.3 million in the corresponding period last year. The net income of the Company in the second quarter of 2007 amounted to \$22.6 million, compared to \$20.8 million in the corresponding period last year.

### **Cash flows used in operating activities**

During the reported period operating activities provided the Company with cash flows totaling \$10.2 million, as compared with \$7.2 million in the same period last year.

### **Cash flows used in investment activities**

Cash flows used for investing activities in the reporting period amounted to \$834.3 million, compared to \$98.7 million in the corresponding period last year. The increase is primarily attributable to investments in Europe, USA, Canada and India.

### **Cash flows provided by financing activities**

Cash flows from financing activities during the reported period, which amounted to \$813.8 million, compared with \$93.4 million in the same period last year, have been primarily affected by financing new investments activities in Europe, USA, Canada and India.

### **D. Exposure to market risks, business risks and methods used in managing them**

#### **Company's policy and method for managing business risk**

The Company uses the following means for reducing its business risk:

- In each country where it invests in yielding assets it obtains loans in the same currency which is used for investment purposes.
- The interest rate on long-term loans is ordinarily fixed.
- Cash balances are deposited in reputable banks and used to acquire marketable securities.
- Management reports to the board of directors from time to time on current market risks exposed to by the Company and the means undertaken to reduce them.

#### **Officers responsible for managing market risks**

The management of market risks by the Company is conducted by the Company's Chief Executive Officer, the Chief Financial Officer and the Business Development Manager. For details regarding risk factors to which the Company is exposed, see paragraph 30 of the report, Business Description of the Company as of December 31, 2006.

### **E. Sensitivity analysis for sensitive instruments, in accordance with change in market factors**

See the appendix A, attached hereto.

### **F. Linkage Basis Report**

See the appendix B, attached hereto.

### **G. Accounting estimates – see Report of the Board of Directors of the Company as of December 31, 2006**

### **H. Report regarding control in the Company and process of approving the financial statements**

The Board of Directors is responsible for the overall control in the Company. The Board of Directors appoints 6 members. The minimum number of directors with accounting and financial expertise is 1. Of the members of the Board of Directors, two directors who have accounting and financial expertise serve. A draft of the financial statements and the report of the Board of Directors are sent for the review of the directors a few days before the meeting of the Board

of Directors. The directors are invited to refer at any time to the Company's Chief Executive Officer and Chief Financial Officer on any question or any clarification required, prior to the meeting. The meeting is attended by the Chief Executive Officer, the Chief Financial Officer, the Business Development Manager and the external auditor. In the course of the Board of Directors meeting, the Company's financial results are reviewed, comparisons between the reported periods and corresponding periods are presented, and changes that have taken place as a result of implementing new standard are described by the Chief Executive Officer, Chief Financial Officer and external auditor. In the course of the discussion, questions are posed to the external auditor relating to principal accounting issues arising from the financial statements and he is asked to present to the Board of Directors fundamental issues that arise during the audit work. The submission of questions regarding the financial statements and the answers provided is given as much time as is necessary. At the end of discussions and after it has been clarified that the financial statements reflect fairly the Company's financial and results of operations, a vote is taken to approve the financial statements.

## **I. Events during the balance period**

1. On February 13, 2007, the parent company, Electra Ltd., announced its intention to consider a restructuring of the Company, whereby the Company will be spun-off from the parent company and become a sister company. If and when this process will be carried out, shares of the Company will be issued to the shareholders of the parent company. The process, if and when it is carried out, will be subject to the approvals required by law, including the approval of the Company's shareholders.
2. In May 2007, 3,370 Series A options were exercised to 3,370 shares of the Company. Accordingly, the Company's shareholders' equity increased by \$ 70.6 thousand.

## **J. Subsequent events**

1. In July 2007, 1,187,073 Series A options were exercised to 1,187,073 shares of the Company, Accordingly, the Company's shareholders' equity will increase by \$ 21.9 million, of which \$ 8.5 million arising from the conversion of the liability to capital as required by the international standards (IFRS).
2. On August 22, 2007, the general meeting of the shareholders approved a framework agreement for extending a credit facility totalling up to \$ 23.5 million by Elco Holdings Ltd. The rate of interest determined in relation to the loans to be taken by the Company from time to time out of the facility reflects the market conditions.
3. On July 26, 2007, the Board of Directors of the Company approved a resolution to raise up to \$ 94.1 million by way of an issue of ordinary non-marketable Series C debentures to institutional entities. The execution of the issue is contingent on the crystallization of commercial conditions.
4. On August 13, 2007, Maalot - The Israel Securities Rating Company Ltd. announced a preliminary rating for the Series C debentures of (A+), for a series of up to \$ 82.4 million.

The Board of Directors expresses its thanks to the Company management and employees for their contribution.

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**Shlomo Sherf**  
CEO

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**Gershon Salkind**  
Chairman of the Board of Directors

**August 27, 2007**

## Appendix A

### Sensitivity tables to sensitive instruments in regards to changes in market factors

	Sensitivity to changes in the US Dollar interest				
	Increase of:		Fair value (\$'000)	Decrease of:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)		Profit (loss) (\$'000)		
<b>Financial Instruments</b>					
Long-term loans to finance yielding assets	6,912	3,494	206,246	(3,571)	(7,221)

	Sensitivity to changes in the Euro interest				
	Increase of:		Fair value (\$'000)	Decrease of:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)		Profit (loss) (\$'000)		
<b>Financial Instruments</b>					
Long-term loans to finance yielding assets	23,226	11,706	876,782	(11,896)	(23,984)

	Sensitivity to changes in the Canadian Dollar interest				
	Increase of:		Fair value (\$'000)	Decrease of:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)		Profit (loss) (\$'000)		
<b>Financial Instruments</b>					
Long-term loans to finance yielding assets	4,984	2,515	216,563	(2,563)	(5,174)

	Sensitivity to changes in the Pound Sterling interest				
	Increase of:		Fair value (\$'000)	Decrease of:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)		Profit (loss) (\$'000)		
<b>Financial Instruments</b>					
Long-term loans to finance yielding assets	1,547	784	41,716	(805)	(1,631)

	Sensitivity to changes in the Swiss Franc interest				
	Increase of:		Fair value (\$'000)	Decrease of:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)		Profit (loss) (\$'000)		
<b>Financial Instruments</b>					
Long-term loans to finance yielding assets	142	71	9,599	(72)	(144)

	Sensitivity to changes in the Israeli New Shekel interest				
	Increase of:		Fair value (\$'000)	Decrease of:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)		Profit (loss) (\$'000)		
<b>Financial Instruments</b>					
Long-term loans to finance yielding assets	813	413	20,005	(427)	(868)

### Sensitivity to changes in cash flow due to changes in variant interest:

	Increase in rate of interest:		Fair value (\$'000)	Decrease in rate of interest:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)			Profit (loss) (\$'000)	
<b>Financial Instruments</b>					
Long-term loans to finance yielding assets	(1,482)	(726)	59,935	699	1,375

	Increase in rate of interest:		Fair value (\$'000)	Decrease in rate of interest:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)			Profit (loss) (\$'000)	
<b>Financial Instruments</b>					
short-term loans in variant interest	(177)	(88)	113,019	88	177

### Assumptions:

1. The sensitivity test for long term loans with variant interest rate was executed only for the permanent component of that interest.
2. The annual interest rate that has being used for the calculation of the fair value of the loans and debentures, is in accordance with interest rate that the company has received or could have received for loans with similar extent, at the Balance Sheet date

## Appendix B

### Balance sheet linkage basis - June 30, 2007 (Table 1)

	Linked to Foreign currency(*)	CPI- linked	Unlinked	Balance	Balance- sheet total
	(in thousand US dollars)				
Cash and cash equivalents	33,112	-	16,330	-	49,442
Short-term deposits	24,423	-	9,455	-	33,878
Marketable securities	668	1,490	543	-	2,701
Trade accounts receivable	5,386	-	444	-	5,830
Current tax assets	2	61	-	-	63
Receivables and other current assets	5,803	72	653	3,994	10,522
Yielding property intended for disposal	-	-	-	36,024	36,024
Inventory of land	-	-	-	14,749	14,749
Investments in affiliates	45,553	-	605	69,996	116,154
Other investment	-	-	-	74,382	74,382
Loans and Long-term receivables	38,248	-	-	-	38,248
Deferred income taxes	-	-	-	550	550
Fixed assets	-	-	-	422	422
Yielding assets	-	-	-	1,816,987	1,816,987
<b>Total assets</b>	<b>153,195</b>	<b>1,623</b>	<b>28,030</b>	<b>2,017,104</b>	<b>2,199,952</b>
Bank borrowings (including current maturities of long-term loans)	131,948	2,402	6,666	-	141,016
Trade accounts payable	2,132	-	61	-	2,193
Payables and other current liabilities	44,903	-	19,504	-	64,407
Current tax liabilities	5,404	186	-	-	5,590
Loans for financing yielding assets and other investments:					
Israel	-	19,535	10,348	-	29,883
Britain	61,891	-	-	-	61,891
North America	342,469	-	-	-	342,469
Europe	965,656	-	-	-	965,656
Debentures	-	121,255	-	-	121,255
Loan from affiliate company	4,905	-	-	-	4,905
Loan from Electra Group companies	26,074	-	-	-	26,074
Loans from shareholders in subsidiaries	5,016	-	-	-	5,016
Liabilities in respect of index-linked options	-	-	-	13,844	13,844
Long-term loan to finance development project	-	-	13,464	-	13,464
Employee benefit liability, net	-	-	-	468	468
Deferred income taxes	-	-	-	68,705	68,705
Minority interest	-	-	-	8,397	8,397
<b>Total liabilities</b>	<b>1,590,398</b>	<b>143,378</b>	<b>50,043</b>	<b>91,414</b>	<b>1,875,233</b>
Net balance sheet amount	(1,437,203)	(141,755)	(22,013)	1,925,690	324,719
Classification of balances linked to the functional currencies of autonomous units	1,421,742	-	-	-	1,421,742
<b>Total exposure of assets (liabilities)</b>	<b>(15,461)</b>	<b>(141,755)</b>	<b>(22,013)</b>	<b>1,925,690</b>	<b>1,746,461</b>

**Appendix B (CONT.)**

**(\*) Composition Of Linked To Foreign Currency  
(table 2)**

	US Dollar	Sterling	Euro	Canadian dollar	Other	Linked to foreign currency
	(in thousand US dollars)					
Cash and cash equivalents	6,867	1,632	16,460	6,769	1,384	33,112
Short-term deposits	6,262	-	13,663	3,864	634	24,423
Marketable securities	236	210	222	-	-	668
Trade accounts receivable	512	-	2,836	1,501	537	5,386
Receivables and other current assets	968	289	4,111	411	24	5,803
Current tax assets	-	-	-	-	2	2
Yielding property intended for disposal	-	-	-	-	-	-
Inventory of land	-	-	-	-	-	-
Investments in affiliates	34,616	-	10,937	-	-	45,553
Other investment	-	-	-	-	-	-
Long-term receivables	2,280	1,755	28,372	5,841	-	38,248
Deferred income taxes	-	-	-	-	-	-
Fixed assets, net	-	-	-	-	-	-
Yielding assets, net	-	-	-	-	-	-
<b>Total assets</b>	<b>51,741</b>	<b>3,886</b>	<b>76,601</b>	<b>18,386</b>	<b>2,581</b>	<b>153,195</b>
Bank borrowings (including current maturities of long-term loans)	35,294	11,205	37,378	41,338	6,733	131,948
Trade accounts payable	447	-	1,685	-	-	2,132
Payables and other current liabilities	5,560	2,527	20,787	14,660	1,369	44,903
Current tax liability	4,059	-	1,158	187	-	5,404
Loans for financing yielding assets and other investments:						
Israel	-	-	-	-	-	-
Britain	-	61,891	-	-	-	61,891
North America	136,148	-	-	206,321	-	342,469
Europe	-	-	900,583	-	65,073	965,656
Debentures	-	-	-	-	-	-
Loan from affiliate company	-	-	4,905	-	-	4,905
Loan from Electra Group companies	-	-	1,348	24,726	-	26,074
Loans from shareholders in subsidiaries	-	-	-	5,016	-	5,016
Liabilities in respect of index-linked options	-	-	-	-	-	-
Long-term loan to finance development project	-	-	-	-	-	-
Employee benefit liability	-	-	-	-	-	-
Deferred income taxes	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
<b>Total liabilities</b>	<b>181,508</b>	<b>75,623</b>	<b>967,844</b>	<b>292,248</b>	<b>73,175</b>	<b>1,590,398</b>
Net balance sheet amount	(129,767)	(71,737)	(891,243)	(273,862)	(70,594)	(1,437,203)
Classification of balances linked to the functional currencies of autonomous units	114,306	71,737	891,243	273,862	70,594	1,421,742
<b>Total exposure of liabilities</b>	<b>(15,461)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15,461)</b>

The Board of Directors  
Electra Real Estate Ltd.  
Tel - Aviv

**Re: Special review report on the unaudited condensed interim consolidated financial statements of Electra Real Estate Ltd. at June 30, 2007 and for the six and three months periods then ended**

At your request, we have reviewed the condensed interim consolidated balance sheet of **Electra Real Estate Ltd.** ("the Company") and its subsidiaries at June 30, 2007, and the related condensed interim consolidated statements of operations, changes in shareholders' equity and cash flows for the six and three months periods then ended (in the Hebrew language, not included herein) and have issued our accountants review report thereon dated August 27, 2007.

The aforementioned financial statements (not presented separately herein) were prepared in the Hebrew language in NIS (see also Note 1), in accordance with International Financial Reporting Standards (IFRS).

As noted in our aforementioned review report, we were furnished review reports of other accountants concerning the review of interim financial statements of consolidated subsidiaries whose assets constitute 79% of the total consolidated balance at June 30, 2007 and revenues 88% and 90% of the total consolidated revenues, for the six and three months periods then ended. We did not review the financial statements of investee companies, in which the Company's investment as of June 30, 2007 amounted to \$48,952 thousand and the Company's share in their results amounted to \$1,967 and \$1,854 thousand for the six and three months periods then ended. The financial statements of those companies were reviewed by other accountants.

As described in Note 1, the accompanying English-language condensed interim consolidated financial statements in US dollars represent a translation of the above-mentioned NIS financial statements into US dollars in condensed form solely for the convenience of the reader ("convenience translation"), using the representative dollar exchange rate in effect on June 30, 2007. Comparative figures for the six and three months period ends June 30, 2006 and for the year ended December 31, 2006 represent a translation of the original NIS values of the respective period, using the representative dollar exchange rate in effect on June 30, 2007. These condensed interim financial statements do not include all the disclosures necessary for presentation of the financial statements in conformity with generally accepted accounting principles.

In our opinion, the convenience translation in condensed form referred to above has been made in accordance with the basis described in Note 1.

**Brightman Almagor & Co.**  
Certified Public Accountants

**Tel-Aviv, August 27, 2007**

**ELECTRA REAL ESTATE LTD.**

**CONSOLIDATED BALANCE SHEETS  
CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	June 30,		December 31,
	2007	2006	2006
	In thousands		In thousands
<b>ASSETS</b>			
<b><u>Current assets</u></b>			
Cash and cash equivalents	49,442	18,005	58,647
Short-term deposits	33,878	3,877	10,694
Marketable securities	2,701	18,913	10,321
Trade accounts receivable	5,830	1,160	1,773
Current tax assets	63	143	109
Receivables and other current assets	10,522	5,595	5,899
Yielding property intended for disposal	36,024	-	-
	138,460	47,693	87,443
<b><u>Un-current assets</u></b>			
Investments in affiliates	116,154	122,813	132,372
Loans and long-term receivables	38,248	23,874	48,605
Fixed assets	422	320	446
Inventory of land	14,749	9,392	11,939
Other investment	74,382	20,573	28,098
Deferred income taxes	550	1,041	712
	244,505	178,013	222,172
<b><u>Yielding assets in -</u></b>			
Israel	134,595	131,455	134,443
Britain	63,025	52,749	56,567
North America	508,872	264,381	314,244
Europe	1,110,495	168,558	417,481
	1,816,987	617,143	922,735
	2,199,952	842,849	1,232,350

**The accompanying notes are an integral part of the condensed financial statements**

**ELECTRA REAL ESTATE LTD.**

**CONSOLIDATED BALANCE SHEETS  
CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	June 30,		December 31,
	2007	2006	2006
	In thousands		In thousands
<b>LIABILITIES AND EQUITY</b>			
<b><u>Current liabilities</u></b>			
Bank borrowings (including current maturities of long-term loans)	141,016	96,243	97,420
Current tax liabilities	5,590	902	1,362
Trade accounts payable	2,193	5,453	2,988
Payables and other current liabilities	64,407	17,987	34,274
	213,206	120,585	136,044
<b><u>Un-current liabilities</u></b>			
Debentures	121,255	83,257	121,203
Long-term loans to finance development projects	13,464	8,969	11,594
Liabilities in respect of index-linked options	13,844	6,834	10,705
Loans from Electra Group companies	26,074	27,254	23,098
Loans from shareholders in subsidiaries	5,016	3,846	3,616
Loan from affiliate company	4,905	-	25,053
Employee benefit liability, net	468	-	446
Deferred income taxes	68,705	41,297	52,895
	253,731	171,457	248,610
<b><u>Loans for financing yielding assets and other investments:</u></b>			
Britain	61,891	34,125	34,259
North America	342,469	158,466	195,373
Europe	965,656	125,042	326,954
Israel	29,883	3,844	4,969
	1,399,899	321,477	561,555
<b><u>Equity</u></b>			
Equity attributable to the Company's shareholders	324,719	220,550	277,657
Minority interests	8,397	8,780	8,484
Total equity	333,116	229,330	286,141
	2,199,952	842,849	1,232,350

Approval date of the financial statements

Tel - Aviv, August 27, 2007

\_\_\_\_\_  
**Zvi Duskin**  
CFO

\_\_\_\_\_  
**Shlomo Sherf**  
CEO

\_\_\_\_\_  
**Gershon Salkind**  
Chairman of the  
Board of Directors

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

**ELECTRA REAL ESTATE LTD.**

**CONSOLIDATED STATEMENTS OF OPERATIONS  
CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December
	2007	2006	2007	2006	31,
	In thousands		In thousands		2006
	In thousands		In thousands		In thousands
<b>Revenues</b>					
Rental fees, management fees and others	64,734	31,144	36,940	16,073	71,250
Adjustment of fair value and results of disposal of yielding properties, net	41,694	21,775	24,001	10,061	(*) 53,072
Company's share in earnings of affiliates, net	2,125	16,378	2,342	13,326	32,401
<b>Total revenues</b>	<u>108,553</u>	<u>69,297</u>	<u>63,283</u>	<u>39,460</u>	<u>156,723</u>
<b>Costs and Expenses</b>					
Operating expenses and maintenance fees	21,096	11,124	11,401	5,450	25,350
General and administrative expenses	7,308	2,909	4,245	2,119	9,827
Financing expenses	31,328	13,016	18,532	7,580	29,271
Financing income from financial assets	(1,618)	(858)	(714)	(371)	(2,161)
Revaluation of liabilities in respect of index-linked options	3,139	3,060	(598)	269	8,734
<b>Total costs and expenses</b>	<u>61,253</u>	<u>29,251</u>	<u>32,866</u>	<u>15,047</u>	<u>71,021</u>
<b>Pre-tax income</b>	47,300	40,046	30,417	24,413	85,702
Income taxes	12,677	7,763	7,815	3,580	17,858
<b>Net income for the period</b>	<u>34,623</u>	<u>32,283</u>	<u>22,602</u>	<u>20,833</u>	<u>67,844</u>
<b>Attributable to:</b>					
The Company's shareholders	34,055	31,796	22,051	20,672	66,750
Minority interests	568	487	551	161	1,094
<b>Net income for the period</b>	<u>34,623</u>	<u>32,283</u>	<u>22,602</u>	<u>20,833</u>	<u>67,844</u>
<b>Earnings per share (in dollars) attributed to the Company's shareholders:</b>					
Basic	<u>1.36</u>	<u>1.35</u>	<u>0.88</u>	<u>0.88</u>	<u>2.80</u>
Diluted	<u>1.34</u>	<u>1.34</u>	<u>0.82</u>	<u>0.87</u>	<u>2.74</u>

(\*) Reclassified.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

STATEMENT OF CHANGES IN EQUITY  
CONVENIENCE TRANSLATION INTO U.S. DOLLARS

Six months ended June 30, 2007

	Share Capital	Share premium	Capital reserve from foreign currency translation adjustment	Share-based payments	Other reserves	Retained earnings	Total shareholders' equity	Minority Interests	Total equity
	(In thousands)								
<b>Balance - January 1, 2007</b>	348	98,538	1,881	657	7,655	168,578	277,657	8,484	286,141
Adjustments on the translation of financial statements of overseas activities	-	-	12,603	-	-	-	12,603	135	12,738
Revaluation of cash flow hedges	-	-	-	-	142	-	142	-	142
Total income recognized directly in equity	-	-	12,603	-	142	-	12,745	135	12,880
Net income for the period	-	-	-	-	-	34,055	34,055	568	34,623
<b>Total income for the year</b>	-	-	12,603	-	142	34,055	46,800	703	47,503
Exercise of options	(*)	65	-	-	-	-	65	-	65
Share-based payment	-	-	-	197	-	-	197	-	197
Dividend paid to minority	-	-	-	-	-	-	-	(790)	(790)
<b>Balance – June 30, 2007</b>	<u>348</u>	<u>98,603</u>	<u>14,484</u>	<u>854</u>	<u>7,797</u>	<u>202,633</u>	<u>324,719</u>	<u>8,397</u>	<u>333,116</u>

(\*) Less than \$1 thousand.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

STATEMENT OF CHANGES IN EQUITY  
CONVENIENCE TRANSLATION INTO U.S. DOLLARS

Six months ended June 30, 2006

	Share Capital	Share premium	Capital reserve from foreign currency translation adjustment	Share-based payments	Other reserves	Retained earnings	Total shareholders' equity	Minority Interests	Total equity
	(In thousands)								
<b>Balance - January 1, 2006</b>	(*)	75,213	8,611	178	-	101,828	185,830	8,312	194,142
Adjustments on the translation of financial statements of overseas activities	-	-	(445)	-	-	-	(445)	(15)	(460)
Revaluation of available for sale assets	-	-	-	-	3,129	-	3,129	-	3,129
Total income recognized directly in equity	-	-	(445)	-	3,129	-	2,684	(15)	2,669
Net income for the period	-	-	-	-	-	31,796	31,796	487	32,283
<b>Total income for the year</b>	-	-	(445)	-	3,129	31,796	34,480	472	34,952
Share-based payment	-	-	-	240	-	-	240	-	240
Dividend paid to minority	-	-	-	-	-	-	-	(4)	(4)
<b>Balance – June 30, 2006</b>	(*)	75,213	8,166	418	3,129	133,624	220,550	8,780	229,330

(\*) Less than \$1 thousand.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

STATEMENT OF CHANGES IN EQUITY  
CONVENIENCE TRANSLATION INTO U.S. DOLLARS

Three months ended June 30, 2007

	Share Capital	Share premium	Capital reserve from foreign currency translation adjustment	Share-based payments	Other reserves	Retained earnings	Total shareholders' equity	Minority Interests	Total equity
	(In thousands)								
<b>Balance - April 1, 2007</b>	348	98,538	(4,714)	755	7,994	180,582	283,503	7,788	291,291
Adjustments on the translation of financial statements of overseas activities	-	-	19,198	-	-	-	19,198	237	19,435
Revaluation of cash flow hedges	-	-	-	-	(197)	-	(197)	-	(197)
Total income recognized directly in equity	-	-	19,198	-	(197)	-	19,001	237	19,238
Net income for the period	-	-	-	-	-	22,051	22,051	551	22,602
<b>Total income for the year</b>			19,198	-	(197)	22,051	41,052	788	41,840
Exercise of options	(*)	65	-	-	-	-	65	-	65
Share-based payment	-	-	-	99	-	-	99	-	99
Dividend paid to minority	-	-	-	-	-	-	-	(179)	(179)
<b>Balance – June 30, 2007</b>	<u>348</u>	<u>98,603</u>	<u>14,484</u>	<u>854</u>	<u>7,797</u>	<u>202,633</u>	<u>324,719</u>	<u>8,397</u>	<u>333,116</u>

(\*) Less than \$1 thousand.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

STATEMENT OF CHANGES IN EQUITY  
CONVENIENCE TRANSLATION INTO U.S. DOLLARS

Three months ended June 30, 2006

	Share Capital	Share premium	Capital reserve from foreign currency translation adjustment	Share-based payments	Other reserves	Retained earnings	Total shareholders' equity	Minority Interests	Total equity
	(In thousands)								
<b>Balance - April 1, 2006</b>	(*)	75,213	10,744	298	-	112,952	199,207	8,633	207,840
Adjustments on the translation of financial statements of overseas activities	-	-	(2,578)	-	-	-	(2,578)	(14)	(2,592)
Revaluation of available for sale assets	-	-	-	-	3,129	-	3,129	-	3,129
Total income recognized directly in equity	-	-	(2,578)	-	3,129	-	551	(14)	537
Net income for the period	-	-	-	-	-	20,672	20,672	161	20,833
<b>Total income for the year</b>	-	-	(2,578)	-	3,129	20,672	21,223	147	21,370
Share-based payment	-	-	-	120	-	-	120	-	120
<b>Balance – June 30, 2006</b>	(*)	75,213	8,166	418	3,129	133,624	220,550	8,780	229,330

(\*) Less than \$1 thousand.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

STATEMENT OF CHANGES IN EQUITY  
CONVENIENCE TRANSLATION INTO U.S. DOLLARS

Year ended December 31, 2006

	Share Capital	Share premium	Capital reserve from foreign currency translation adjustment	Share-based payments	Other reserves	Retained earnings	Total shareholders' equity	Minority Interests	Total Equity
	(In thousand U.S. dollars)								
<b>Balance - January 1, 2006</b>	(*)	75,213	8,610	179	-	101,828	185,830	8,312	194,142
Adjustments on the translation of financial statements of overseas activities	-	-	(6,729)	-	-	-	(6,729)	(205)	(6,934)
Revaluation of available for sale assets	-	-	-	-	8,537	-	8,537	-	8,537
Revaluation of cash flow hedges	-	-	-	-	(882)	-	(882)	-	(882)
Total income recognized directly in equity	-	-	(6,729)	-	7,655	-	926	(205)	721
Net income for the year	-	-	-	-	-	66,750	66,750	1,094	67,844
<b>Total income for the year</b>	-	-	(6,729)	-	7,655	66,750	67,676	889	68,565
Issuance of shares (**)	348	23,325	-	-	-	-	23,673	-	23,673
Share-based payment	-	-	-	478	-	-	478	-	478
Dividend paid to minority	-	-	-	-	-	-	-	(717)	(717)
<b>Balance – December 31, 2006</b>	<u>348</u>	<u>98,538</u>	<u>1,881</u>	<u>657</u>	<u>7,655</u>	<u>168,578</u>	<u>277,657</u>	<u>8,484</u>	<u>286,141</u>

(\*) Less than \$1 thousand.

(\*\*) Net of issuance expenses.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
CONVENIENCE TRANSLATION INTO THOUSANDS OF U.S. DOLLARS

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December
	2007	2006	2007	2006	31,
					2006
<b>Cash Flow - Operating Activities:</b>					
Net income	34,623	32,283	22,602	20,833	67,844
Adjustments required to present cash flows from operating activities (Appendix A)	(24,397)	(25,082)	(17,926)	(16,770)	(53,058)
<b>Net cash provided by operating activities</b>	<u>10,226</u>	<u>7,201</u>	<u>4,676</u>	<u>4,063</u>	<u>14,786</u>
<b>Cash Flows - Investing Activities:</b>					
Proceeds from the sale of marketable securities, net	8,217	5,099	4,639	6,260	14,248
Long-term loans granted	(11,364)	(572)	(4,415)	(61)	(*) (2,743)
Collection of long-term debts (also from affiliated company)	-	38	-	31	(*) 38
Proceeds from the sale of investees that were full and proportionately consolidated (Appendix B)	22,026	2,971	16,235	2,971	6,408
Realization of short-term deposits, net	(24,180)	(1,321)	(14,699)	(467)	(8,323)
Change in deposits designated for yielding assets	24,222	(10,182)	-	188	(16,643)
Investments in shares of affiliates and other companies	(36,457)	(11,973)	(4,697)	(11,973)	(15,244)
Initial full consolidation of a subsidiary that was proportionately consolidated in the past (Appendix C)	-	(2,322)	-	(2,322)	(2,322)
Initial full consolidation of an affiliate (Appendix D)	-	-	-	-	(4,962)
Initial full consolidation of a subsidiary (Appendix E)	(6,326)	-	-	-	(16,676)
Acquisition and construction of yielding assets	(810,453)	(80,154)	(492,200)	(22,380)	(239,090)
Acquisition of fixed assets and other assets	(5)	(303)	-	(145)	(1,341)
Proceeds from disposition of yielding properties	-	-	-	-	7,419
<b>Net cash used in investing activities</b>	<u>(834,320)</u>	<u>(98,719)</u>	<u>(495,137)</u>	<u>(27,898)</u>	<u>(279,231)</u>
<b>Cash Flows - Financing Activities:</b>					
Issuance of debentures and options for debentures, net of related expenses	-	-	-	-	39,336
Dividend paid to minority shareholders in a subsidiary	(790)	-	(179)	-	(717)
Issuance of shares, net of issuance expenses	37	-	37	-	21,868
Receipt of long-term loans	810,997	82,998	502,278	24,626	227,821
Repayment of long-term loans	(9,923)	(1,888)	(7,059)	(1,041)	(5,948)
Receipt (Repayment) of loans and capital notes from the Electra Group companies, net	-	644	-	334	(1,420)
Receipt of loans and capital notes from minority shareholders in consolidated subsidiaries, net	1,113	169	262	58	260
Receipt (Repayment) of loan and capital notes from an affiliate company, net	(20,558)	-	3,664	-	25,053
Receipt of short-term bank borrowings, net	32,945	11,445	5,443	334	940
<b>Net cash provided by financing activities</b>	<u>813,821</u>	<u>93,368</u>	<u>504,446</u>	<u>24,311</u>	<u>307,193</u>
<b>Translation differences relating to cash balances in autonomous units</b>	<u>1,068</u>	<u>193</u>	<u>1,296</u>	<u>(35)</u>	<u>(63)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>(9,205)</u>	<u>2,043</u>	<u>15,281</u>	<u>441</u>	<u>42,685</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>58,647</u>	<u>15,962</u>	<u>34,161</u>	<u>17,564</u>	<u>15,962</u>
<b>Cash and cash equivalents at end of period</b>	<u>49,442</u>	<u>18,005</u>	<u>49,442</u>	<u>18,005</u>	<u>58,647</u>

(\*) Reclassified.

The accompanying notes are an integral part of the financial statements

**ELECTRA REAL ESTATE LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
CONVENIENCE TRANSLATION INTO THOUSANDS OF U.S. DOLLARS**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2007	2006	2007	2006	2006
<b>Appendix A - Adjustments required to present cash flows from operating activities:</b>					
<b>Expenses (income) not involving cash flows:</b>					
Company's share in earnings of affiliates, net, after appropriation of profits	(242)	(16,377)	(2,341)	(13,326)	(32,401)
Depreciation and amortization	29	156	9	10	640
Adjustment of fair value and results of disposal of yielding properties, net	(41,694)	(21,775)	(24,001)	(10,061)	(*) (53,072)
Change in value of long-term receivables and liabilities, net (including interest charged to the parent company)	1,008	(1,536)	2,185	(1,028)	(2,876)
Deferred income taxes	10,414	6,959	6,321	3,184	16,676
Gain from marketable securities	(597)	(483)	(163)	(106)	(1,040)
Recording of expenses in connection with share based payments	197	239	99	120	478
Revaluation of liabilities in respect of index-linked options	3,139	3,059	(598)	269	8,734
<b>Changes in assets and liabilities:</b>					
Trade accounts receivables	(3,976)	(154)	(2,202)	943	(836)
Receivables and other current assets	(4,035)	371	(2,697)	(239)	329
Trade accounts payables	(1,455)	307	(3,300)	(898)	964
Payables and other current liabilities	12,815	4,152	8,762	4,362	9,346
	<u>(24,397)</u>	<u>(25,082)</u>	<u>(17,926)</u>	<u>(16,770)</u>	<u>(53,058)</u>
<b>Appendix B - Proceeds from the sale of investees that were full and proportionately consolidated</b>					
<b>Net assets and liabilities at acquisition:</b>					
Net working capital (excluding cash)	1,110	(199)	2,009	(199)	(1,056)
Long-term receivables	1,524	-	1,524	-	20
Yielding assets, net	62,701	13,839	48,373	13,839	23,526
Long-term liabilities	(41,833)	(10,359)	(34,111)	(10,359)	(16,008)
Loss from investment realization	(1,476)	(310)	(1,560)	(310)	(74)
	<u>22,026</u>	<u>2,971</u>	<u>16,235</u>	<u>2,971</u>	<u>6,408</u>
<b>Appendix C - Initial full consolidation of a subsidiary that was proportionately consolidated in the past</b>					
<b>Net assets and liabilities at acquisition:</b>					
Net working capital (excluding cash)	-	164	-	164	164
Fixed assets and other assets	-	(643)	-	(643)	(643)
Yielding assets, net	-	(20,189)	-	(18,251)	(18,251)
Long-term receivables	-	(1,706)	-	(1,843)	(1,843)
Long-term liabilities	-	20,052	-	18,251	18,251
	<u>-</u>	<u>(2,322)</u>	<u>-</u>	<u>(2,322)</u>	<u>(2,322)</u>

(\*) Reclassified.

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

**ELECTRA REAL ESTATE LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
CONVENIENCE TRANSLATION INTO THOUSANDS OF U.S. DOLLARS**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2007	2006	2007	2006	2006
<b><u>Appendix D - Initial full consolidation of an affiliate</u></b>					
Net working capital (excluding cash)	8,263	-	-	-	499
Fixed assets and other assets	-	-	-	-	(2,011)
Yielding assets, net	(27,662)	-	-	-	(30,315)
Investment in affiliates	11,328	-	-	-	7,392
Long-term liabilities	8,071	-	-	-	19,473
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,962)</u>
<b><u>Appendix E - Initial full consolidation of a subsidiary</u></b>					
Net working capital (excluding cash)	1,500	-	-	-	787
Yielding assets, net	(60,232)	-	-	-	(125,598)
Long-term liabilities	52,406	-	-	-	108,135
	<u>(6,326)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,676)</u>
<b><u>Appendix F - Supplementary cash flow information</u></b>					
<b>Cash paid during the year:</b>					
Interest	18,213	10,721	10,021	10,721	23,732
Income taxes	61	36	15	36	113
	<u>18,274</u>	<u>10,757</u>	<u>10,036</u>	<u>10,757</u>	<u>23,845</u>
<b>Cash received during the year:</b>					
Interest	373	202	157	(4,285)	673
Income taxes	-	108	-	91	489
	<u>373</u>	<u>310</u>	<u>157</u>	<u>(4,194)</u>	<u>1,162</u>
<b><u>Appendix G – Non-cash transactions</u></b>					
Purchase of yielding property on credit	<u>17,562</u>	<u>2,980</u>	<u>17,562</u>	<u>1,743</u>	<u>11,818</u>

The accompanying notes are an integral part of the financial statements

**ELECTRA REAL ESTATE LTD.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 1 - Reporting principles and accounting policies**

**A. General**

The interim consolidated financial statements of the Company have been prepared in a condensed format in conformity with International Accounting Standard No. 34, and in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, except for the regulations that do not meet the implementation of the IFRS, or what is permitted thereby.

These statements should be reviewed in conjunction with the Company's annual statements as of December 31, 2006 and for the year then ended and the notes related thereto.

The principal accounting policies have been applied in these interim statements on a basis consistent with those applied in the annual statements as of December 31, 2006, except for the implementation of International Accounting Standards, which came into effect from January 1, 2007. Accordingly, Amendment to IAS 1: Disclosures on Capital and IFRS 7: Financial Derivatives – Disclosure and Amendment to IAS No. 23: Capitalization of Credit Costs, have been adopted by the Company in preparing the financial statements as of June 30, 2007. The adoption of these accounting standard have no significant impact on the Company's financial statements.

These interim financial statements are presented in US dollars, derived from convenient translation of the financial statements prepared in NIS, into US dollars by using the conversion rate prevailing on June 30 ,2007 (\$1.00= NIS 4.249).

The accompanying English-language condensed interim consolidated financial statements in US dollars represent a translation of the above-mentioned NIS financial statements into US dollars in condensed form solely for the convenience of the reader ("convenience translation"), using the representative dollar exchange rate in effect on June 30 ,2007. Comparative figures for the six and three months periods ended June 30, 2006 and for the year ended December 31, 2006 represent a translation of the original NIS values of the respective period, using the representative dollar exchange rate in effect on June 30 ,2007. These condensed interim financial statements do not include all the disclosures necessary for presentation of the financial statements in conformity with generally accepted accounting principles.

**B. Initial adoption of International Financial Reporting Standards in the financial statements for 2006**

The Company has, for the first time, adopted the International Financial Reporting Standards (IFRS) in the financial statements for 2006.

In the financial statements for 2006, IFRS 1 has been adopted, which provides the transition provisions for the initial reporting pursuant to IFRS. IFRS 1 grants reliefs on certain issues by way of the non-application of the obligation of retroactive implementation in respect thereof. In applying the transition provisions by virtue of IFRS 1, the Company did not choose either of the reliefs permitted thereby.

Pursuant to IFRS 1, at the transition date (January 1, 2005), the Company implemented the IFRS standard in force as of December 31, 2006 for all reporting periods presented in its financial statements. Prior to the adoption of the IFRS standards, the Company prepared its statements in conformity with generally accepted accounting principles in Israel.

**ELECTRA REAL ESTATE LTD.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 1 - Reporting principles and accounting policies (Cont.)**

**B. Initial adoption of International Financial Reporting Standards in the financial statements for 2006 (Cont.)**

See Note 4 regarding an explanation of the transition from reporting pursuant to generally accepted accounting principles in Israel to reporting pursuant to IFRS standards, as of June 30, 2006 and for the six-months period then ended.

**C. Details on the exchange rates are provided below:**

Increase (decrease) in the CPI and the exchange rate:

	June 30,		December 31,
	2007	2006	2006
CPI (in points)	186.67	187.92	184.87
<u>In NIS:</u>			
US Dollar	4.249	4.44	4.225
Pound Sterling	8.5067	8.1376	8.2884
Canadian Dollar	4.0195	3.9998	3.6408
Euro	5.7132	5.6435	5.5643
Swiss Franc	3.4496	3.6013	3.4655
Indian Rupee	0.1047	(*)	(*)

(\*) The Group had no activity in these currencies in the relevant period.

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2007	2006	2007	2006	2006
Change in exchange rate during the period then ended (in %):					
CPI	0.97	1.55	1.21	0.97	(0.10)
US Dollar	0.57	(3.54)	2.26	(4.82)	(8.21)
Pound Sterling	2.63	2.48	4.69	0.13	4.38
Canadian dollar	10.40	0.90	11.63	(0.50)	(8.16)
Euro	2.68	3.62	3.23	(0.32)	2.16
Swiss Franc	(0.46)	2.94	1.25	0.40	(0.94)
Indian Rupee	0.09	(*)	0.08	(*)	(*)

(\*) The Group had no activity in these currencies in the relevant period.

**ELECTRA REAL ESTATE LTD.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 2 - Significant event in the period and thereafter**

- A. 1. In November 2006, a wholly-owned foreign subsidiary of the Company entered into an agreement with a company from the Property and Building Group (hereinafter, "Property and Building") and another foreign company (hereinafter "the foreign company") for the establishment of a company in Mauritius (hereinafter, "the company in Mauritius"), which will be held by the foreign subsidiary and Property and Building in equal shares (45% each), with the remaining 10% held by the foreign company.

The agreement arranges the system of relationships between the subsidiary, Property and Building and the foreign company as shareholders in the company in Mauritius.

The company in Mauritius will operate in the initiation of activity and investments in the real estate area in India.

2. In January 2007, the company in Mauritius, through an Indian subsidiary, entered into a memorandum of understanding for the acquisition of land on an area of 140 dunams in the city of Hyderabad, India. The company in Mauritius will hold around 95% of the rights in the aforesaid venture (hereinafter, "the joint venture"), with the remainder held by the local partner. The aggregate cost of acquisition of the land amounted to approximately US\$ 23 million, with the Company's share in the acquisition amounting to US\$ 10 million, which will be financed from own resources. The joint venture intends to plan and erect buildings on the land, to be used for mixed purposes, mainly for offices and logistics, on a total area of 280,000 square meters. The joint company estimates that the aggregate cost of the project will amount to approximately US\$ 140 million. The joint venture will examine the possibility of bank financing for the construction of the project.
3. In February 2007, the company in Mauritius, through an Indian subsidiary, acquired a plot of land of approximately 100 dunams in the city of Hyderabad, India. The company in Mauritius holds 90% of the rights in the Indian company, with the remainder held by a local partner, which will be entitled to increase its holding in the Indian company by a further 10%. The aggregate cost of acquiring the land amounted to US\$ 30.6 million, with the subsidiary's share amounting to US\$ 13.8 million, which will be financed by own resources.

The designation of the land is for housing and around 2,300 housing units can be built on it, with a total scope of 300,000 square meters. The project will be constructed in stages depending on demand and the actual marketing of the housing units. According to the assessment of the company in Mauritius, the total cost of the investment in the project will amount to US\$ 150 million. The company in Mauritius intends to finance the remainder of its investments in the project by foreign finance.

- B. In January 2007, a wholly-owned foreign subsidiary of the Company acquired 55% of the rights to a yielding property and adjacent land in the city of Toronto, Canada. The acquisition price of the yielding property (100%) before expenses is Can\$ 51 million, plus Can\$ 1.6 million of related expenses. In addition, land adjacent to the property, representing part of the site of the property was acquired. The price of the adjacent land (100%) is Can\$ 2 million. According to the existing approvals, it is currently permitted to construct on the land approximately 10,500 square meters for offices or housing.

The property is a seven-storey office block located in the city of Toronto, Canada. The aggregate net area for rental is approximately 24,600 square meters, with the addition of 500 parking places. The building is leased to various tenants for various periods, with the main tenants being the Canadian government, Heinz Foods, EDS Technologies and Shell Energy Company. The present rate of occupancy is around 99%. Average annual gross

**ELECTRA REAL ESTATE LTD.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 2 - Significant event in the period and thereafter (Cont.)**

**B. (Cont.)**

rent (100%) is an aggregate of Can\$ 8.5 million. After deducting management and maintenance expenses, The net average annual rent is Can\$ 4 million.

A foreign financial institution has extended a loan to finance the transaction totalling Can\$ 37 million at a fixed interest rate of 5.10% for a period of five years. The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- C.** In February 2007, a wholly-owned foreign subsidiary of the Company acquired 60% of the rights to a yielding property in the city of Chicago, U.S.A. The acquisition price of the property (100%), before expenses, is US\$ 152.7 million, plus related expenses of US\$ 3.6 million. The building is a prestigious (Class A) 26-storey office tower situated in the business centre in the city of Chicago, in the state of Illinois, U.S.A. The net aggregate area for rent is 66,300 square meters. The building is leased to various tenants for various periods. The present rate of occupancy is around 99%. Approximately 62% of the area of the property is leased to 5 main tenants for periods ending between December 2012 and March 2018. Average annual gross rent (100%) is an aggregate of US\$ 20 million. After deducting management and maintenance expenses, The net average annual rent is US\$ 10.4 million.

A financial institution in the United States has extended a loan to finance the transaction totalling US\$ 127.44 million, representing around 83% of the price of acquiring the property, at a fixed interest rate of 5.56% for a period of 10 years.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- D.** In February 2007, a wholly-owned foreign subsidiary of the Company acquired 70% of the rights in a portfolio including two yielding properties in the city of Saarbrücken and a further yielding property, an hotel in the city of Nuremberg, Germany.

The acquisition price of the properties in Saarbrücken (100%) before expenses was € 72.5 million, and the acquisition price of the hotel (100%) before expenses was € 4.6 million. The total cost of the portfolio (100%) before expenses was € 77.1 million, and in addition, related expenses of € 4 million.

The properties in the city of Saarbrücken are two office blocks located in the business centre of the city. Their net aggregate area for rent is 62,700 square meters, as well as around 1,000 covered parking spaces. The present rate of occupancy of these two properties is around 95%. Approximately 90% of the area of these two properties is leased to Deutsche Telekom and Deutsche Post for various periods ending in 2011 – 2017. The property in the city of Nuremberg is a 125-room hotel. The hotel is leased in full to a local hotel management company under a 10-year contract (through 2017) with no exit option.

Net annual rental of the properties in Saarbrücken (100%) is an aggregate of € 6.1 million, and the net annual rental of the hotel in Nuremberg (100%) is an aggregate of € 0.4 million.

The total net annual rental of the three properties (100%) is an aggregate of € 6.5 million. There is an incremental mechanism for the rent in accordance with the consumer price

index in Germany. All of the current management and maintenance expenses in respect of these properties are paid by the tenants.

**ELECTRA REAL ESTATE LTD.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 2 - Significant event in the period and thereafter (Cont.)**

**D. (Cont.)**

A financial institution in Germany has extended a loan to finance the transaction in the amount of €69.15 million, representing 90% of the acquisition price of the properties, with fixed interest at a rate of 5.34% for a five-year period. In addition, the bank has undertaken to extend a further loan of €5 million on fulfilling certain conditions.

The loan is secured by a first-priority fixed lien on the properties and receipts from the properties, with no right of recourse for the Company.

- E.** In February 2007, a foreign subsidiary of the Company, holding in final combination approximately 44.5% in a property in the city of Hartford, Connecticut, U.S.A., sold its holdings in the property. The property sold was an office block with an area of 78,500 square meters, the rights in which were acquired by the subsidiary in November 2005. The aggregate proceeds from the sale of the property (100%) after selling and related expenses were US\$ 92.4 million and the subsidiary's share was US\$ 41.18 million.

The subsidiary's total share in the aggregate pre-tax profit in respect of the sale of the property, was US\$ 5.2 million, which was recorded in the affiliated company's statements for the year ended December 31, 2006 mainly as revenues from revaluation.

The total net cash flows attributable to the subsidiary in respect of the sale of the property, after repayment of the loan and the rest of the related expenses, are US\$ 17.8 million.

- F.** In February 2007, a wholly-owned foreign subsidiary of the Company acquired 70% of the rights in a yielding property in the city of Frankfurt, Germany. The acquisition price of the property (100%) before expenses was €62 million, plus related expenses of €4.5 million. The building is a 22-storey office block situated in one of the business centres in the city of Frankfurt, Germany. The total net area for rental is 18,400 square meters, as well as around 400 covered parking spaces.

The building is fully rented out to Ernst & Young, Accountants, under a rental contract through the end of 2015, with no exit option.

The net annual rental (100%) is €4.1 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of these properties are paid by the tenant.

A financial institution in Germany has extended a loan to finance the transaction (100%) in the amount of €59 million, with fixed interest at a rate of 5.14% for a five-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- G.** In March 2007, a wholly-owned foreign subsidiary of the Company acquired 60% of the rights in a yielding property in the city of Chicago, U.S.A. The acquisition price of the property (100%) before expenses was US\$ 79.5 million, plus related expenses of US\$ 2.7 million. The building is a 22-storey office block listed for historic preservation situated in the business centre in the city of Chicago, Illinois, U.S.A. The net aggregate area for rental is 53,900 square meters. The building is leased to various tenants for various periods. The present rate occupancy of the property is 87%.

Average annual gross rent (100%) is an aggregate of US\$ 13.3 million, after deducting management and maintenance expenses, The net average annual rent (100%) is US\$ 6.1 million.

A financial institution in the United States has extended a loan to finance the transaction (100%) in the amount of US\$ 61.1 million, with fixed interest at a rate of 5.71% for a three-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

**ELECTRA REAL ESTATE LTD.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 2 - Significant event in the period and thereafter (Cont.)**

- H.** In March 2007, a wholly-owned foreign subsidiary of the Company acquired 90% of the rights to a yielding property in the city of Montreal, Canada. The acquisition price of the yielding property (100%) before expenses was Can\$ 37.75 million, plus Can\$ 1.25 million of related expenses. The property is a complex comprised of three adjacent office blocks located in the city of Montreal, Canada. The total net area for rent is 28,800 square meters, as well as 435 covered parking places. The property is leased to various tenants for various periods. The present occupancy rate is around 87%. Annual gross rent (100%) is an aggregate of Can\$ 6.7 million, after deducting management and maintenance expenses, the net average annual rent is Can\$ 3.1 million.

A foreign financial institution has extended a loan to finance the transaction (100%) totalling Can\$ 30 million at a fixed interest rate of 5.41% for a period of three years. In addition, the financial institution undertook to extend a further Can\$ 4 million on fulfilling certain conditions.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- I.** In March 2007, a wholly-owned foreign subsidiary of the Company acquired 50% of the rights to a yielding property in the city of Geneva, Switzerland. The acquisition price of the yielding property (100%) before expenses was Swiss Francs 17.7 million, plus related expenses of Swiss Francs 1.1 million. The property is a 7-storey office block located in the business centre in the city of Geneva, Switzerland. The net aggregate area for rental is 2,500 square meters. The building is currently mostly empty, and the partners intend to renovate and extend the building, at an estimated cost of Swiss Francs 4 million, and lease it in a process that is expected to continue for 6-12 months.

A financial institution in Switzerland has extended a loan to finance the transaction (100%) totalling Swiss Francs 10.7 million at a variable interest rate, currently 2.90%, for an unspecified period available for repayment at any given time at no cost.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- J.** In March 2007, a foreign company, held at a rate of 42.5 % by a wholly-owned subsidiary of the Company and 42.5% by a foreign company from the Property and Building Ltd. Group, acquired the rights to a yielding property in the city of Cologne, Germany. The acquisition price of the yielding property (100%) including expenses was € 106.7 million. The property is a technological park, containing 15 buildings close to the city of Cologne, Germany. The aggregate area of the park is 127 dunams, and the net area for rental is 72,000 square meters, as well as 1,600 parking spaces. In addition, there are additional building rights in the park for 50,000 square meters. The park is fully leased to various tenants for various periods, and is managed by a management company specialized in the area of technological park management. Annual gross rent (100%) is an aggregate of € 7.6 million, after deducting management and maintenance expenses, the net annual rent (100%) is € 7.25 million.

The rental contracts include an incremental mechanism for the rent in accordance with the consumer price index in Germany. A financial institution in Germany has extended a loan to finance the transaction (100%) totalling € 93.7 million at a fixed interest rate of 5.25% for a five-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

**ELECTRA REAL ESTATE LTD.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 2 - Significant event in the period and thereafter (Cont.)**

- K.** In March 2007, a wholly owned foreign subsidiary of the Company acquired 100% of a yielding property in the city of Schwerin, Germany.  
The acquisition price of the property before expenses was € 30.9 million, plus related expenses of € 2.4 million. The property is 4-storey office block situated in the city of Schwerin, Germany. The net aggregate area for rental is 14,560 square meters, as well as 200 covered parking spaces.  
The building is fully rented to a government medical insurance company (AOK Insurance) in a rental contract through June 2022, with no exit option.  
The net annual rent is an aggregate of € 2. million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of the property are paid by the tenants.

A financial institution in Germany has extended a loan to finance the transaction totalling € 27.8 million, representing approximately 90% of the acquisition price of the asset, at fixed interest at a rate of 5.25% for a seven-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- L.** In March 2007, the Company, through foreign companies (hereinafter, "the foreign companies") in which the Company holds, through foreign companies, 9.9% (hereinafter, "the acquiring companies") concluded an agreement to purchase the entire share capital of the foreign companies holding 47 hotels managed by the Marriott chain throughout the United Kingdom (hereinafter "the hotels"), 39 of the hotels in England (of which 5 are in London), 5 in Scotland, and 3 in Wales. The hotels are divided into business tourist hotels, golf hotels and tourist hotels, and they include, in total, 8,456 rooms. The acquisition is of the hotels with their entire contents, including all of the furniture and equipment contained therein. A management agreement has been signed by the acquiring companies and the Marriott chain (hereinafter, "the management agreement") whereby the hotels will be managed by the Marriott chain for 30 years with Marriott having an option to extend the agreement for a further 10 years under the conditions that have been agreed. The management agreement relates to the amount of the management fees and the amounts of investment and maintenance. Pursuant to the management agreement, the employees will continue to be employed by the Marriott chain. The management agreement further provides that if Marriott chain does not fulfil the tests of results relating mainly to profitability and occupancy of the hotels, the acquiring companies will be entitled to discontinue the management of the hotels by Marriott. It should be noted that Marriott was not granted an exit right from the management. In order to finance the acquisition, a non-recourse long-term fixed-interest loan of £ 856.1 million was approved for the acquiring companies. In addition, the bank undertook to finance additional investments for the acquiring companies that will be required in the coming years in the amount of up to £ 62.2. The bank financing the acquisition will be entitled to 20% of the gains on the sale of the properties in the future. In computing the aforementioned gains, current receipts will not be taken into account. Also, not taken into account is an amount reflecting the increase in the value of 2.5% per annum in respect of each year until the sale. The total shareholders' equity required from the foreign companies (100%) for the acquisition includes all of the related costs, i.e., £ 207.2 million. The share of the foreign companies of the Company in the shareholders' equity is £ 20.5 million.

- M.** In April 2007, a wholly-owned foreign subsidiary of the Company acquired 60% of the rights in a yielding property in the city of Frankfurt, Germany.

The acquisition price of the property (100%) before expenses was € 200 million, plus related expenses of approximately € 17 million. The property is brand new, luxury office block, whose construction was completed in 2003, situated in the business centre of the city of Frankfurt, Germany. Its net aggregate area for rental is 35,500 square meters, as well as 350 covered parking spaces.

**ELECTRA REAL ESTATE LTD.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 2 - Significant event in the period and thereafter (Cont.)**

**M. (Cont.)**

The building is fully leased to Dresdner Bank, which is one of largest banks in Germany and belongs to the European financial group, Allianz, in a rental contract through June 2013 with no exit option. The tenant has an option to extend the rental period for a further 5 years.

The net annual rent (100%) is an aggregate of € 14 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of the property are paid by the tenant.

An overseas financial institution has extended a loan to finance the transaction (100%) totalling € 193.5 million at fixed interest at a rate of 5.43% for a seven-year period. Of this amount, € 5.0 million was placed as a deposit, which will be released on fulfilling certain conditions. The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

Another financial institution extended a further loan for the transaction (100%) totalling € 11.8 million at a variable interest rate of LIBOR + 2% for a seven-year period, plus an exit commission, the amount of which is dependent on the gain to be generated in the project on its future sale. The loan is secured by a second priority fixed lien on the property and the receipts from the property, with no right of recourse for the Company.

The total shareholders' equity required for the transaction (100%) is € 16.7 million and the share of the foreign subsidiary (60%) is € 10 million.

**N.** In May 2007, a wholly owned foreign subsidiary of the Company acquired 60% of the rights in a yielding property in the city of Frankfurt, Germany.

The acquisition price of the property (100%) including expenses was € 40 million.

The property is a building combining commercial areas and 62 housing units, situated in one of the main commercial streets in the city of Frankfurt, Germany. The net aggregate area for rental is 24,600 square meters, as well as 200 covered parking spaces.

The commercial area, constituting approximately 90% of the entire area of the property and of the revenues therefrom, are fully leased to a retail chain of the Metro group, in a rental contract through December 2013 with no exit option. The housing units are fully leased to various tenants.

The net annual rent (100%) is an aggregate of € 2.53 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of the property are paid by the tenants.

An overseas financial institution has extended a loan to finance the transaction (100%) totalling € 32.5 million at a variable interest rate, currently 5.18%, for a five-year period, with maximum interest (cap) protection, not to exceed 5.40%.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

**O.** In May 2007, a foreign subsidiary of the Company, holding 72% of the rights in one property and 63% of the rights in a second property in the city of Baltimore, U.S.A., Sold its holdings in corporations which hold those properties.

The properties that were sold were two office blocks with an aggregate area for rental (100%) of 53,200 square meters, the rights to which were purchased by the foreign subsidiary towards the end of 2004.

The aggregate proceeds from the sale of the properties (100%), net of selling expenses amounted to US\$ 76.6 million, and the foreign subsidiary's share was US\$ 49.75 million.

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**Note 2 - Significant event in the period and thereafter (Cont.)**

**O. (Cont.)**

The foreign subsidiary's share in the aggregate pre-tax profit in respect of the sale of the properties was US\$ 3 million. This gain was included in the revaluation of yielding properties performed by the Company in its financial statements in previous reporting periods.

The total net cash flows attributable to the foreign subsidiary in respect of the sale of the properties, after repayment of the loan and the rest of the related expenses, are US\$ 16.5 million.

- P.** On May 9, 2007, the Audit Committee and the Board of Directors of the Company approved a transaction for the acquisition of 25% of the rights in plot of land situated in Yigal Allon Street, Tel Aviv, and for the construction of a project of a 45-storey office block, as a joint transaction with Electra Industries Ltd., a wholly-owned subsidiary of Electra Ltd. (hereinafter, "Electra"), the controlling shareholder in the Company, and Amcor (hereinafter, "the seller"). Pursuant thereto, each will acquire 25% of the right in the plot from the project, as aforesaid, from the seller (hereinafter, "the Project").

The plot is a tract of land leased under a perpetual lease from Israel Lands Administration and from the Tel Aviv Municipality. The Project is a real estate project for the construction of an office block and commercial areas with an area of 54,000 square meters, a car-park with 1,200 parking spaces. The office space that will be built is intended for rental and for sale.

Each party will bear its proportional share in the expenses of the Project. The construction of the Project will be financed through bank funding. Each party to the transaction will make available collateral and shareholders' equity to support the bank funding as necessary, without cross-guarantees and according to its proportional share.

The proceeds in respect of the rights in the plot were determined as a derivative of the various types of areas of the Project. The Company's share in the proceeds in respect of the rights in the plot amounts to US\$ 11.5 million. A mechanism has been determined between the parties for adjusting proceeds for the actual measurement of the types of the areas.

The project will be constructed by Electra Construction Ltd., a wholly-owned subsidiary of Electra, as a key contractor on the basis of predetermined specification. The total cost of construction is estimated at US\$ 70.6 million. The prices, which do not include value added tax, are linked to the basic index of building inputs. A mechanism has been determined between the parties for reducing the proceeds, in the event of a delay in completing the performance and remuneration in respect of complying with timetables.

Each party will bear the costs of constructing the Project according to its proportional share in the plot (i.e., Electra Industries – 25%, the Company – 25% and the Seller – 50%).

The Company anticipates that the construction of the Project will take around 40 months. The cost of the Project to the Company, before finishing work, is estimated by the Company at US\$ 35.3 million and US\$ 40.0 million including finishing work, including the Company's share in acquiring the plot.

After the building is occupied, it will be managed through a management and maintenance company to be agreed by the parties.

The transaction is subject to the receipt of an exclusion letter from Bank Leumi Ltd., which holds a lien on the rights of the Seller in the plot. As of the date of the report, this letter was received.

**ELECTRA REAL ESTATE LTD.**  
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**Note 2 - Significant event in the period and thereafter (Cont.)**

- Q.** In May 2007, a wholly owned foreign subsidiary of the Company acquired 70% of the rights in portfolio including 10 yielding properties, of which 6 were located in the Netherlands, and 4 in Germany.

The acquisition price of the portfolio (100%) including expenses was € 278.9 million.

All of the properties are office buildings with a total area available for rental of 103,600 sq. mtrs., along with approximately 1,700 covered car-parking spaces. The properties are 100% occupied.

The properties in the Netherlands are four buildings located close to Schiphol Amsterdam Airport, one property in Rotterdam city centre and one in the centre of The Hague. The aggregate area of the properties is 47,700 sq. mtrs.

The properties in Germany included one in the centre of the city of Berlin one in Hanover, one in Munich and one in Dortmund. The aggregate area of these properties is 55,900 sq. mtrs.

The properties in the portfolio are leased to various tenants and for various periods with the principal tenants being the accounting firm of PwC, the Dutch communication company, KPN, the Municipality of Dortmund, the printing corporation, Kyocera and the Dutch bank, IDM Bank.

The net annual rental (100%) received from the ten properties amounts to € 17.65 million. The lease contracts include a clause providing a mechanism for increasing the rent in accordance with the consumer price indices in the Netherlands and Germany. All day-to-day management and main expenses in respect of these properties are paid by the tenants.

To finance the transaction (100%), an overseas financial institution has extended a loan of € 256.1 million with a fixed interest rate of 5.40% for a period of 5 years. Of this amount, € 3.9 million has been placed in a deposit, which will be released when certain conditions have been fulfilled. The loan is secured by a first-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.

Also, to finance a transaction (100%), another overseas financial institution has extended a further loan totalling € 12.8 million with a variable interest rate of LIBOR + 1.75% for a period of 5 years, with a exit commission whose amount is dependent on the gain arising from the project when it is sold in the future. The loan is secured by a second-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.

- R.** In May 2007, 3,370 Series 1 options were exercised to 3,370 shares of the Company. Accordingly, the Company's shareholders' equity increased by US\$ 0.7 Million.

- S.** In June 2007, the Company entered into an agreement, by way of a tender, to sell its share (50%) in the "Ayalon Business Centre" Project. The expected proceeds from the transaction (100%) is \$ 101.2 million, with the Company's share amounting to \$ 50.6 million. Selling expenses are included within the framework of the adjustment of the fair value of the Company's assets. In the Company's June 30, 2007 financial statements, this property is included within current assets.

The purchase transaction is subject to the approval of the secured creditor Bank Hapoalim Ltd of Moscowitz Building Company Ltd. (the owner of the outstanding rights in the project) and the fulfilment of pending conditions – the receipt in writing from the agreed parties in Tel Aviv Municipality (the registered owners), to transfer the rights and obligations of the vendors (according to the purchase agreement from the Municipality) to the Company.

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**Note 2 - Significant event in the period and thereafter (Cont.)**

**S. (Cont.)**

The Company and the partner in the property will be authorized at their sole discretion to cancel the transaction agreement with the Company, if all of the pending conditions have not been fulfilled through May 31, 2008 (if this date is not extended with the consent of the parties).

**T.** Further to Note 16e.2 in the Company's financial statements at December 31, 2006, the Company signed agreements with two further banks and undertook to comply with certain financial criteria. As of the date of the report, the Company complies with the financial criteria stipulated.

**U.** In July 2007, 1,187,073 Series 1 options were exercised to 1,187,073 shares of the Company. Accordingly, the Company's shareholders' equity will increase by US\$ 21.9 million.

**V.** In July 2007, a overseas wholly-owned company of the Company acquired 50% of the rights to a yielding property in Regensburg, near Munich, Germany.

The acquisition price of the property (100%) before expenses is € 45.1 million, plus related expenses of € 3.1 million.

The property is used as plant for the manufacture of spare parts and as logistical centre for the producer of BMW motor vehicle company in the city of Regensburg, near Munich, Germany. The net aggregate area available for rental is approximately 43,000 sq. mtrs.

The building is fully leased to BMW under a rental contract through December 2033, with an option for an early exit in December 2018.

The net annual rent (100%) is € 3 million. The rent is subject to a mechanism for an increase in accordance with the consumer price indices in Germany. All day-to-day management and main expenses in respect of these properties are paid by the tenants.

To finance the transaction (100%), a financial institution in Germany has extended a loan of € 40.85 million with a fixed interest rate of 5.37% for a period of 7 years.

The loan is secured by a first-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.

**W.** In July 2007, the Board of Directors of the Company approved a resolution to raise NIS 400 million (approximately \$ 94.1 million) by way of an issue of ordinary non-marketable debentures to institutional entities. The execution of the said issue is contingent on the crystallization of commercial conditions.

**X.** On July 15, 2007, the Audit Committee and the Board of Directors of the Company approved, subject to the approval of the general meeting of the shareholders of the Company, a credit framework to extend a credit facility in favour of the Company totalling up to NIS 100 million (approximately \$ 23.5 million) by Elco Holdings Ltd. (hereinafter, "Elco"), the controlling shareholder in the Company, which would enable to taking of short-term loans from time to time out of the said facility, in order to finance the purchase of new assets.

The loans will be granted for maximum periods of six months.

**ELECTRA REAL ESTATE LTD.**  
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**Note 2 - Significant event in the period and thereafter (Cont.)**

**X. (Cont.)**

The credit facility will be extended in favour of the Company for a period of five years, and will be renewed for a further five-year period, unless either of the parties gives 60 days' notice of the non-renewal in advance and in writing. Elco has the right to bring the framework agreement to a conclusion by written notice to the Company, to be given no later than two months prior to each twelve months from the date of the credit framework, such that the credit framework will come to an end within six months of the date of notice.

The loans that the Company will assume out of the credit framework will bear interest payable each calendar quarter as a percentage of Elco's cost of raising the funds from the bank in respect of a loan in the same currency in the same amount, as set forth in the agreement, plus 0.2%.

The amount of the loans to be actually extended by Elco to the Company out of the credit framework will be subject to a decision by Elco.

Subsequent to the balance sheet date, the general meeting of the Company approved the framework agreement.

**Y. In August 2007, an overseas investee company of the Company, holding a 49%-stake in a property in the City of London, England, sold its holdings in the property.**

The property sold is an office block on Jermyn Street, London, with an area of 2,600 sq. mtrs., the rights in which were acquired by the investee company in October 2002 at the property price (100%) of £ 12.7 million.

The aggregate proceeds from the sale of the property (100%) before expenses was £19.3 million, and after related selling expenses, was £ 18.7 million. The share of the investee company of this amount is £ 9.16 million.

The total share of the investee company in the aggregate gain before tax in respect of the sale of the property, after all of the costs related to the execution of the sale transaction, is £ 2.9 million(\$ 6 million), with the said gain including- \$ 4.3 million as a result of the adjustment of the fair value of the asset made in earlier reporting periods, and \$ 1.7 million recorded as income from the adjustment of fair value in the June 30, 2007 statements.

The total net cash flow provided for the subsidiary in respect of the sale of the property, after the repayment of the loan and all the related expenses, is £ 4.3 million .

**Z. In August 2007, an overseas wholly owned subsidiary of the Company acquired 25% of the Harbor Group International (HGI) for consideration of US\$ 23.75 million, at a company value (100%) of US\$ 95 million.**

The overseas company has an option to purchase a further 5%-stake in HGI for two years from the date of completing the transaction.

Of the consideration, US\$ 14 million was paid on completion of the transaction, US\$ 4.875 million will be paid after 12 months and the balance of US\$ 4.875 million will be paid after 24 months. The deferred payments will be paid in dollars without linkage or interest.

The overseas subsidiary has the right to appointment directors on its behalf according to its relative share in the HGI.

**ELECTRA REAL ESTATE LTD.**  
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**Note 2 - Significant event in the period and thereafter (Cont.)**

**Z. (Cont.)**

HGI, whose headquarters are in Norfolk, Virginia, U.S.A., is engaged in the purchase, improvement, management and sale of yielding property, mostly in the United States. HGI acts as a managing partner in all of the properties in its portfolio, and is entitled to regular management fees and participate in the gains deriving from the properties.

- AA.** In August 2007, an overseas wholly owned subsidiary of the Company acquired 70% of the rights in a portfolio including 17 yielding properties, in the city of Cologne, Germany.

The purchase price of the portfolio (100%) includes expenses is € 191 million.

15 properties are office blocks, one property is a logistical centre and one property is an hotel. The properties are located in the city of Cologne, Germany, and the aggregate area available rental is 122,100 sq. mtrs., with a further 2,100 covered parking spaces.

The properties are leased to various tenants and for various periods, The current occupancy of the properties is 100%, and is guaranteed for 5 years.

The gross average annual rent (100%), received from all 17 properties, is a total of € 12.9 million, and after deduction of management and maintenance expenses, the net average annual rent (100%) is € 12.6 million. The lease contracts include a clause providing a mechanism for increasing the rent in accordance with the consumer price index in Germany.

To finance the transaction (100%), an overseas financial institution has extended a loan of € 166.3 million, at a fixed rate of interest for a five-year period. The loan is secured by a first-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.

- BB.** In August 2007, an overseas wholly owned subsidiary of the Company acquired 60% of the rights in a yielding property in London, England.

The acquisition price of the property (100%) before expenses was £ 134.7 million, plus related expenses of £ 9.1 million.

The property is a luxury office block, located in the business centre in London, England, with a net aggregate area available for rental of 17,500 sq. mtrs., with building rights for the construction of approximately 2,000 sq. mtrs., net, for rental.

The building is fully leased to the Royal Bank of Canada (RBC), which is the largest bank in Canada, in a lease agreement through March 2012, without an exit option. The building is used by RBC as its headquarters in London.

The gross annual rental (100%) is £ 7.85 million and net of ground leasing cost, the net annual rental (100%) is £ 7.53 million. All of the current management and maintenance expenses in respect of the property are paid by the tenant.

To finance the transaction (100%), an overseas financial institution has extended a loan of £ 120 million, at fixed interest for a seven-year period. Of this amount, £ 7.0 million has been placed in an interest-bearing deposit, which will be released when certain conditions are fulfilled. The loan is secured by a first-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.

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**Note 2 - Significant event in the period and thereafter (Cont.)**

**BB. (Cont.)**

To finance the transaction (100%), Another overseas financial institution has extended a loan of £ 14.9 million, at fixed interest for a three-year period, plus an exit commission, the amount of which is dependent on the gain arising from the project on its future sale. The loan is secured by a second-priority fixed lien on the property and the receipts from the property, without any right of recourse to the Company.

The overseas subsidiary is in preliminary negotiation with RBC for extending the rental agreement for a period beyond the current rental period.

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**Note 3 - Geographical segments**

**Consolidated data, by operating segments:**

Due to the nature of the Company's business activities, the segment's results are net of financing expenses and include adjustment of fair value and results of disposal of yielding properties.

	<b>Israel</b>	<b>Europe</b>	<b>North America</b>	<b>Total</b>
	<b>US\$ in thousands</b>			
<b>Six months ended</b>				
<b>June 30, 2007 (unaudited):</b>				
Segment revenues	9,243	62,388	36,922	108,553
Segment results	(1,738)	44,379	4,659	47,300
<b>Six months ended</b>				
<b>June 30, 2006 (unaudited):</b>				
Segment revenues	15,077	24,371	29,849	69,297
Segment results	7,313	22,224	10,509	40,046
<b>Three months ended</b>				
<b>June 30, 2007 (unaudited):</b>				
Segment revenues	6,511	34,776	21,996	63,283
Segment results	1,659	23,729	5,029	30,417
<b>Three months ended</b>				
<b>June 30, 2006 (unaudited):</b>				
Segment revenues	10,863	11,588	17,009	39,460
Segment results	7,090	10,225	7,098	24,413
<b>Year ended december 31, 2006(*):</b>				
Segment revenues	25,353	68,301	63,069	156,723
Segment results	6,279	56,455	22,968	85,702

(\*) Reclassified.

**ELECTRA REAL ESTATE LTD.**  
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**Note 4 - Explanation of transition to international financial reporting standards (IFRS)**

The significant adjustments between reporting in accordance with generally accepted accounting principles in Israel to reporting in accordance with international financial reporting standards (IFRS), which will be included in the consolidated balance sheets and shareholders' equity as of June 30, 2006 and in the consolidated statement of operations for the period of six months ended June 30, 2006 are summarised as follows:

**A. Adjustments to capital**

<b>As of June 30, 2006</b>					
<b>Effect of</b>					
<b>transition to</b>					
<b>international</b>					
<b>standards</b>					
<b>International</b>					
<b>standards</b>					
<b>US\$ in</b>					
<b>thousands</b>					
<b>Note</b>	<b>Israeli</b>	<b>Effect of</b>	<b>International</b>		
	<b>standards</b>	<b>transition to</b>	<b>standards</b>	<b>standards</b>	
	<b>US\$ in</b>	<b>international</b>	<b>standards</b>	<b>standards</b>	
	<b>thousands</b>	<b>standards</b>	<b>standards</b>	<b>standards</b>	
	<b>thousands</b>	<b>US\$ in</b>	<b>thousands</b>	<b>US\$ in</b>	<b>thousands</b>
	<b>thousands</b>	<b>thousands</b>	<b>thousands</b>	<b>thousands</b>	
<b><u>Current assets</u></b>					
	18,005	-		18,005	
Cash and cash equivalents					
	3,877	-		3,877	
Short-term deposits					
	18,913	-		18,913	
Marketable securities					
	1,160	-		1,160	
Trade accounts receivable					
	(2) 143	-		143	
Current tax assets					
	(2) 6,567	(972)		5,595	
Receivables and other current assets					
	<u>48,665</u>	<u>(972)</u>		<u>47,693</u>	
<b><u>Un-current assets</u></b>					
	(1) 119,621	3,192		122,813	
Investments in affiliates					
	(2) 24,794	(920)		23,874	
Loans and long-term receivables					
	320	-		320	
Fixed assets					
	(2) 9,392	-		9,392	
Inventory of land					
	16,401	4,172		20,573	
Other investment					
	(3),(1) 3,498	(2,457)		1,041	
Deferred income taxes					
	(1) 2,133	(2,133)		-	
Deferred expenses					
	<u>176,159</u>	<u>1,854</u>		<u>178,013</u>	
<b><u>Yielding assets in -</u></b>					
	(1) (1)(2) 113,536	17,919		131,455	
Israel					
	41,947	10,802		52,749	
Britain					
	200,529	63,852		264,381	
North America					
	150,358	18,200		168,558	
Europe					
	<u>506,370</u>	<u>110,773</u>		<u>617,143</u>	
	<u>731,194</u>	<u>111,655</u>		<u>842,849</u>	

(1) As part of the transition to international accounting standards, an adjustment by way of a restatement as of June 30, 2006, totalling US\$ 4.1 million, is included.

(2) Reclassified.

**ELECTRA REAL ESTATE LTD.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 4 - Explanation of transition to international financial reporting standards (IFRS) (Cont.)**

**A. Adjustments to capital (Cont.)**

		<b>As of June 30, 2006</b>		
		<b>Israeli standards</b>	<b>Effect of transition to international standards</b>	<b>International standards</b>
		<b>US\$ in thousands</b>	<b>US\$ in thousands</b>	<b>US\$ in thousands</b>
<b>Note</b>		<b>thousands</b>	<b>thousands</b>	<b>thousands</b>
<b><u>Current liabilities</u></b>				
	Bank borrowings (including current maturities of long-term loans)	(4) 35,293	60,950	96,243
	Current tax liabilities	902	-	902
	Trade accounts payable	5,453	-	5,453
	Payables and other current liabilities	(2) 15,067	2,920	17,987
		<u>56,715</u>	<u>63,870</u>	<u>120,585</u>
<b><u>Un-current liabilities</u></b>				
	Debentures	83,257	-	83,257
	Long-term loans to finance development projects	(2) 8,969	-	8,969
	Liability from management fees to a controlling shareholder	(3) 11,961	(11,961)	-
	Liabilities in respect of index-linked options	(2) -	6,834	6,834
	Loans from Electra Group companies	27,254	-	27,254
	Loans from shareholders in subsidiaries	3,846	-	3,846
	Deferred income taxes	(1) (2) 11,643	29,654	41,297
		<u>146,930</u>	<u>24,527</u>	<u>171,457</u>
	<b><u>Loans for financing yielding assets and other investments:</u></b>	(4)		
	Britain	34,796	(671)	34,125
	North America	202,646	(44,180)	158,466
	Europe	142,278	(17,236)	125,042
	Israel	3,844	-	3,844
		<u>383,564</u>	<u>(62,087)</u>	<u>321,477</u>
<b><u>Equity</u></b>				
	Equity attributable to the Company's shareholders	(1) 142,668	77,882	220,550
	Minority interests	(5) 1,317	7,463	8,780
	Total equity	<u>143,985</u>	<u>85,345</u>	<u>229,330</u>
		<u>731,194</u>	<u>111,655</u>	<u>842,849</u>

(1) As part of the transition to international accounting standards, an adjustment by way of a restatement as of June 30, 2006, totalling US\$ 4.1 million, is included.

(2) Reclassified.

**ELECTRA REAL ESTATE LTD.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 4 - Explanation of transition to international financial reporting standards (IFRS) (Cont.)**

**B. Profit and Loss adjustment**

		<u>six months period ended June 30, 2006</u>		
		<u>Israeli standards</u>	<u>Effect of transition to international standards</u>	<u>International standards</u>
		<u>US\$ in thousands</u>	<u>US\$ in thousands</u>	<u>US\$ in thousands</u>
<u>Note</u>		<u>thousands</u>	<u>thousands</u>	<u>thousands</u>
<b>Revenues</b>				
	Rental fees, management fees and others	31,144	-	31,144
(1)	Adjustment of fair value and results of disposal of yielding properties, net	(1) 461	21,314	21,775
(1)	Company's share in earnings of affiliates, net	13,899	2,479	16,378
	<b>Total revenues</b>	<u>45,504</u>	<u>23,793</u>	<u>69,297</u>
<b>Costs and Expenses</b>				
	Operating expenses and maintenance fees	10,968	-	10,968
	General and administrative expenses	2,909	-	2,909
(1)	Depreciation and amortization	4,590	(4,434)	156
	Financing expenses	12,158	858	13,016
	Financing income from financial assets	-	(858)	(858)
(2)	Revaluation of liabilities in respect of index-linked options	-	3,060	3,060
	<b>Total costs and expenses</b>	<u>30,625</u>	<u>(1,374)</u>	<u>29,251</u>
	<b>Pre-tax income</b>	14,879	25,167	40,046
(1)	Income taxes	778	6,985	7,763
	<b>Net income for the year</b>	<u>14,101</u>	<u>18,182</u>	<u>32,283</u>
<b>Attributable to:</b>				
	The Company's shareholders	14,121	17,675	31,796
(5)	Minority interests	(20)	507	487
	<b>Net income for the period</b>	<u>14,101</u>	<u>18,182</u>	<u>32,283</u>

- (1) As part of the transition to International Accounting Standards, an adjustment by way of a restatement in the period of six months ended June 30, 2006, totalling US\$ 376.6 thousand, is included.

**ELECTRA REAL ESTATE LTD.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 4 - Explanation of transition to international financial reporting standards (IFRS) (Cont.)**

**C. Notes to the adjustment to capital and to net income or loss**

**1. Yielding assets**

According to generally accepted accounting principles in Israel, yielding assets were stated on a cost basis, including the capitalization of costs directly attributable to its purchase, capitalized to the date that the buildings are suitable for fulfilling their designated purpose. Cost was presented net of accumulated depreciation and declines in the value of the buildings.

International standards permit the choice between the fair value model and the cost model. The Group has elected to apply the fair value model, according to which yielding assets is measured, after initial recognition, at fair value, with changes in fair value recognized in profit or loss.

**2. Options whose exercise price is linked to the Israeli CPI**

According to international standards, a derivative that is paid by of exchange of a non-fixed amount is defined as a financial liability. Furthermore, a financial liability that constitutes a derivative is measured at fair value against profit and loss. Accordingly, options whose exercise price per share is linked to the Israel consumer price index is presented as a liability measured at their fair value.

**3. Management fees to controlling shareholder**

In accordance with a decision of the staff of the Israel Securities Authority of June 2005, and pursuant to a preliminary directive received from the staff of the Israel Securities Authority, the Company previously recorded a liability (net after a charge for tax) in respect of an agreement for management fees.

An estimate of the initial liability was computed according to the payment of management fees based on the average consolidated net income of the Company in the past three years, at a capitalization rate of 8.5%.

The capitalization of the liability was effected in respect of the period from the beginning of the sixth year from the date of signing the agreement and thereafter. Once each reporting period, the liability was updated in accordance with the estimate of a representative profit. The amounts of the update were carried periodically, directly, net of the related tax effect, as a reduction or increase of the shareholders' equity in each reporting period.

According to international reporting standards, the liability and the reduction from shareholders' equity in respect of the commitment to pay management fees should not be recognized.

**4. Extension of credit facilities after the balance sheet date**

In July and August 2006, the Company came to an agreement with the banks regarding the extensions of long-term credit facilities totalling US\$ 61.2 million, subject to the Company's meeting its obligations to the banks.

According to Israeli standards, the credit is presented in full at the amount of the aforesaid credit facilities as of June 30, 2006, as a long term credit.

According to international standards, the agreements for the extension of the credit facilities obtained in writing after the balance sheet date do not change the classification as short-term credit.

**ELECTRA REAL ESTATE LTD.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 4 - Explanation of transition to international financial reporting standards (IFRS) (Cont.)**

**C. Notes to the adjustment to capital and to net income or loss (Cont.)**

**5. Minority rights**

According to generally accepted accounting principles in Israel, minority rights are measured according to the share of the minority in the identifiable assets and liabilities of the investee company at book value and are presented as quasi-capital.

According to international standards, minority rights are presented in the consolidated balance sheet as a part of shareholders' equity at the amount of the minority's share in the identifiable assets and liabilities of the investee company on the date of acquisition at their fair value, with the addition of the minority share in the Company's accrued profits from the date of acquisition to the balance sheet date.