

**ELECTRA REAL ESTATE LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2008**  
**(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, 2008**

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, 2008. ("Report period")

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, 2007).

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, 2007.

**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, 105 assets including 95 yielding assets and 10 assets in various stages of development and construction as well as 9.9% in 58 hotels across Britain, as follows:

<b>Country</b>	<b>Yielding assets</b>	<b>Nature of asset</b>
Israel	14	9 Yielding assets and 5 assets under construction
Britain	5 58	Yielding assets Hotels (Company's share- 9.9%)
Canada	16	Yielding assets
USA	8	7 Yielding assets and 1 asset that is being earmarked for conversion and sale as condo units
Germany	46	Yielding assets
Switzerland	4	Yielding assets
Holland	6	Yielding assets
Belgium	1	Yielding asset
India	5	Assets under construction

The Company's in the aggregate area of the rental properties (including the Company's share in the assets of affiliates) is 1,130,000 sq. mtrs., with another 427,500 sq. mtrs. of parking space.

The average occupancy rate of all the rental properties as for the date of the report is approximately 96%.

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

- |                |
|----------------|
| 1- Canada      |
| 2- USA         |
| 3- Britain     |
| 4- Holland     |
| 5- Germany     |
| 6- Switzerland |
| 7- Israel      |
| 8- India       |
| 9- Belgium     |



**Credit rating**

The Company's debentures are rated by Maalot - The Israel Securities Rating Company Ltd. At the rate A/Negative.

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 (\$101,432)
Series B debentures – Issued to institutions	Sept 2006	NIS 167,714 (\$50,034)

On May 25, 2008, Maalot informed a number of public and private companies, among them the Company that the bond rating of the Company was under re-examination. Subsequent to the balance sheet date, on August 10, 2008, Maalot informed the Company that the rating of the series of bonds in circulation was being lowered from A+ to A/Negative.

After the balance sheet date, the Company repaid a total of NIS 56,667 thousand - nominal, (NIS 61,064 thousand - adjusted) out of the Series A payment of annual principal.

**Activity in Israel**

The Company holds seven offices buildings and two office floors in different locations in Israel held at various rates ranging from 33% to 100%. The assets are leased to various tenants for different periods expiring till 2020. In addition, the Company holds five assets under construction.

**Transactions during the period:**

- Sale of four floors of offices, for aggregate consideration of \$8.1 million.
- Increase in the shareholding percentage (from 25% to 50%) in an office block.

- The Company has signed a sales agreement whereby, together with its partners, it undertook to sell all of its rights in an office block, to be built at 58 – 68, Harakevet Street, Tel Aviv, including the ground floor, which is intended for commerce and/or offices, and 22 or 23 floors above, intended for office space, with 5 basement floors, for parking/storage. The Company's share in the project is 33.33%. The consideration will be calculated according to the expected yield on the rental, including in accordance with a mechanism, as provided in the agreement. On the basis of data available as of the date of this report, the Company believes that the consideration for the sale of the building is expected to amount to of between US\$ 55 - 60 million (100%). The transaction is subject to compliance with certain fundamental conditions, including the letting of at least 50% of the space available for rental in the building under the terms outlined in the agreement, receipt of approval of occupancy and the commencement of the receipt of rent in respect of the leased parts. As of the date of this report, the project is in the preliminary stages of obtaining a building permit and the date of handing over possession is expected to be in 2011. The information set forth in the above sections regarding the expected consideration and the expected date of transfer is prospective information, which is based on assumptions and assessments made by the Company, and the basis of data in its possession at the date of this report. However, this information may not actually materialize or may turn out to be different from that anticipated, if there are changes in total rental fees and/or in the progress of building in the project, due to factors that are not dependent on the Company.

### **Transactions after the report period**

The Company purchased one-half of the rights to land in the Old City of Jaffa. The purchase price, before expenses amounting to NIS 2 million (approximately \$0.6 million), is NIS 27.4 million (approximately \$8.2 million). The property consists of plot of land of 5,000 sq. mtrs., on which is situated a listed building, known as "the French Hospital", with an area of 2,500 sq. mtrs. According to the existing City Building Plan, it is possible to construct on the land buildings with a gross area of 15,000 sq. mtrs. for mixed use of a hotel and residential apartments, and also an underground car-park. The Company and its partners intend to construct a luxury hotel with 130 rooms on an area of 10,000 sq. mtrs., using the remaining area (5,000 sq. mtrs.) to construct luxury residential apartments for sale. The total expected investment in the project 100% (including the land component) is US\$60 million. with the Company's share being US\$30 million, which will be financed from the Company's own resources and from loans from financial institutions. For the purpose of managing the hotel, a letter of intent (LOI) has been signed with Starwood, which is one of the world's largest and leading international hotel management and holding companies, managing hundreds of hotel throughout the world under several brands. The management contract with Starwood, if signed, will be for a period of 30 years, with an option to extend for a further 10 years.

### **Foreign activity**

#### **Electech Real Estate B.V (Electech)**

Electech, a Dutch foreign company, wholly owned by the company, coordinates, supervises and manages most the Company's act outside Israel. Electech's activity is conducted through foreign companies and partnerships. (For additional details on the shareholding structure of the Company, see paragraph 1.10 in the Report of the Business Description of the Company as of December 31, 2007).

As of June 30, 2008, Electech operates in the Britain, the United States, Germany, the Netherlands, Switzerland, Belgium and India.

#### **Britain**

On the balance-sheet date the Company held, through investees abroad, five commercial buildings in Britain, leased for periods expiring between 2012 and 2020, held at percentages of 60% and 100%. The company also holds through foreign investees in 9.9% from 16 hotels throughout Britain, managed by Hilton and in 9.9% from 42 hotels throughout Britain managed by Marriott.

The management agreements are periods of 30 years, ending 2035 and 2037, respectively.

## **Canada**

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in 16 commercial buildings in Canada including one logistic center, that are held at various rates ranging from 55% to 100% in lease contracts for periods which ends between 2008 and 2022.

## **USA**

As of the balance sheet date, Electech holds a wholly owned foreign subsidiary, Electech Real Estate Inc. (hereinafter: "Electech"), foreign corporations (LLC) which own the rights to eight office buildings in the United States, two of which are a rate of 60% in lease contracts for periods which ends between 2008 and 2022 and six assets at rates ranging between 40% - 49% through companies that accounted by the equity method (Including one asset that is being earmarked for conversion and sale as condo units).

In addition, the company holds 25% of the Harbor Group International LLC ("HGI") in USA which is engaged in the purchase, improvement, management and sale of rental property, mainly in the United States.

## **Europe (Germany, Holland, Switzerland and Belgium)**

At the balance-sheet date, through its foreign subsidiaries Electech holds rights in fifty seven buildings in Germany, Holland, Switzerland and Belgium of which, 52 buildings at a shareholding rate of between 50% and 100% in rental contracts ending in the years 2008-2033. An additional 5 properties held through affiliates at rate of 42.5%- 45%.

## **Transactions during the period**

- Acquisition of an office block in Lucerne, Switzerland – Electech has purchased 50% of the rights in the building through a subsidiary of Electech. The building, whose acquisition price includes related expenses (100%) is Swiss Francs 9.3 million (approximately \$8.8 million) is fully let. A financial institution in Switzerland has extended a loan to finance the transaction (100%) to Swiss Francs 6.6 million (approximately \$6.2 million) with variable interest, whose rate is currently 3.4%. The loan is secured by a first-priority fixed lien on the asset and receipts, without the right of recourse for the Company.
- Sale of eight properties in Berlin, Germany – Electech, which holds the rights to 50% of eight properties, sold its entire holdings therein. The eight properties and another property, which was not sold, were purchased by a subsidiary in December 2005 for (100%) € 41.7 million (approximately \$65.6 million). The aggregate sale proceeds from the sale of the eight properties, before expenses, were € 75.5 million (approximately \$119 million) and after selling expenses (100%), € 73.5 million (approximately \$115.8 million). Out of the proceeds, € 14 million (approximately \$ 22 million) was placed in a deposit which will be reduced in accordance with a mechanism provided in the sales contract. The duration of the deposit period will not exceed 7 years, In respect of its share (50%) in this agreement, the Company recorded a liability to guarantee revenue to the purchaser which, as of June 30, 2008, was estimated at € 3 million (approximately \$4.7 million), which is deducted from the gain accruing from the sale. The total gain before tax on the sale of the eight properties and after all of the costs related in executing the sale (100%) is € 30.8 million (approximately \$48.5 million) and Electech's share out of this gain is € 15.4 million (approximately \$24.3 million ), out of which, a gain of € 14.3 million (approximately \$22.5 million) was recorded as part of the revaluations of the properties made by the Company in previous periods and the balance of the gain totalling € 1.1 million (approximately \$1.7 million) was recorded in this period. The total cash flows, gross, before tax (100%) in respect of the sale of the eight properties and after repayment of the loans for all of the nine properties, the placement of the deposit and the related expenses is € 27.5 million (approximately \$43.3 million) and Electech's share is € 15.1 million (approximately \$23.8 million).

## **India**

As of the balance sheet date, Electech, through foreign subsidiaries, holds 5 plots of land with shareholding percentages ranging from 40.5% to 44.1%.

The plots are private and are located in the cities of Hyderabad, Maisur and Chennai in India. The plots are intended for the construction of housing, commercial and office projects. The Company intends to plan and establish on them 7,000 housing units and buildings to be used for office and commerce with a total area of 370,000 sq mtrs. The Company intends to commence marketing and constructing the first stage of the housing project in the city of Hyderabad, including 780 housing units, in the second half of 2008.

The Company is making its investments in India in cooperation with a company of the Property and Building Ltd., which holds plots of land with identical shareholding percentages for the Company, and together with other parties.

The information set forth in the above paragraphs regarding the scope of the expected overall investments is prospective information, this information is based on the data for the Company's costs, business plans and sales forecasts correct as of the date of the report, and is subject to external influences due to factors that are not dependent on the Company. Accordingly, the aforesaid data may be different from the Company's assessments as mentioned above.

## **B. Financial Position**

Total assets as of the balance sheet date amounted to \$3,152.4 million, compared to \$3,442.2 million at the end of 2007. Most of the reduction in the volume of assets and liabilities (as set forth below in the various balance sheet items) of the Company at the balance sheet date is attributable to a change in exchange rates of the currencies in the markets in which it operates.

### **Details on the change in exchange rates in relation to the shekel at the balance sheet date since the end of 2007:**

<b>Currency</b>	<b>Rate's Change (in %):</b>
<b>US Dollar</b>	- 12.8%
<b>Euro</b>	- 6.7%
<b>Pound Sterling</b>	- 13.5%
<b>Swiss Franc</b>	- 3.8%
<b>Canadian Dollar</b>	- 15.3%

### **Current assets**

Total current assets as of the balance sheet date amounted to \$186.4 million, compared to \$191.9 million as of the end of 2007.

### **Non current assets**

Non current assets as of the balance sheet date amounted to \$342.6 million as compared with \$354.9 million on December 31, 2007.

### **Yielding assets**

Total yielding assets as of the balance sheet date amounted to \$2,623.7 million as compared with \$2,895.5 million on December 31, 2007. The decrease in the company's yielding assets is primarily attributable to the change in exchange rates in the report period and from sale of eight properties in Germany.

The Company's share in the yielding assets of its affiliates as of the balance sheet date totals \$339.5 million.

### **Current liabilities**

Total current liabilities as of the balance sheet date amounted to \$258.9 million as compared with \$245.5 million on December 31, 2007.

## Non current liabilities

Non current liabilities (including long-term loans obtained to finance the acquisition of yielding assets) on the balance-sheet date amounted to \$2,463.9 million as compared with \$2,718.1 million on December 31, 2007. As of the balance sheet date the bank loans, which amounted to \$1,954.1 million, constituted non-recourse loans secured by a first-tier lien on the asset and the receipts in respect thereof (Electra Real Estate LTD). The Company's share in the bank loans of its affiliates as of the balance sheet date totals \$248.5 million. These are non-recourse loans.

## Shareholders' equity

The Company's shareholders' equity at the balance sheet date was \$429.9 million compared to \$478.7 million at the end of 2007. The change in shareholders' equity as of the balance sheet date is primarily attributable to capital reserves from translation differences arising from foreign operations and other reserves totalling \$63.9 million (mainly as a result of the weakness of the currencies in relation to the shekel in countries in which the Company operates, as noted above) and from the net income for the period amounting \$15 million. For a further summary, see the statement of changes in shareholders' equity in the financial statements.

### C. Results of operations

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

	2008		2007		
	Quarter 4-6/08	Quarter 1-3/08	Quarter 10-12/07	Quarter 7-9/07	Quarter 4-6/07
Revenues from rental fees, management fees, and other	58,704	60,689	71,139	59,679	46,826
Adjustment of fair value and results of disposal of yielding properties, net	(646)	1,877	16,911	9,769	30,424
Company's share in earnings (losses) of affiliates, net	1,393	1,283	(1,668)	5,135	2,968
<b>Total revenues</b>	<b>59,451</b>	<b>63,849</b>	<b>86,382</b>	<b>74,583</b>	<b>80,218</b>
Operating expenses and maintenance fees	17,325	17,839	23,938	15,636	14,451
General and administrative expenses	2,465	2,602	(*) 287	4,024	5,382
Financing expenses, net	37,306	32,995	35,419	38,655	22,586
Financing income in respect of revaluation of index-linked options	(1,082)	(1,661)	(351)	(2,673)	(758)
<b>Total costs and expenses</b>	<b>56,014</b>	<b>51,775</b>	<b>59,293</b>	<b>55,642</b>	<b>41,661</b>
<b>Pre-tax income</b>	<b>3,437</b>	<b>12,074</b>	<b>27,089</b>	<b>18,941</b>	<b>38,557</b>
Tax Expenses (Benefit)	(750)	1,261	4,780	2,760	9,907
<b>Net income</b>	<b>4,187</b>	<b>10,813</b>	<b>22,309</b>	<b>16,181</b>	<b>28,650</b>
<b>Attributed to:</b>					
The Company's shareholders	4,194	10,731	22,352	16,290	27,951
Minority interests	(7)	82	(43)	(109)	699
<b>Net income</b>	<b>4,187</b>	<b>10,813</b>	<b>22,309</b>	<b>16,181</b>	<b>28,650</b>

(\*) see section H. as follows.

## **Revenues**

Total revenues of the Company in the first half of 2008 (hereinafter, "the reporting period") amounted to \$123.3 million, compared to \$137.6 million in the corresponding period last year.

The Company's revenues from rent, management fees and other in the reporting period amounted to \$119.4 million, compared to \$82 million in the corresponding period last year, increase of 46%. Most of the increase in rental fees is attributable to the purchase of new properties in the Company's markets of operation, during 2007.

The company's revenues in the reporting period includes, \$3.9 million from Adjustment of fair value and results of disposal of yielding properties and from Company's share in earnings (losses) of affiliates (net, after tax), compared to \$55.5 million in the corresponding period last year. The decrease in this item is attributable to the fact that during the period, there were no significant changes in the value of the Company's assets compared to the end of 2007.

## **Financing expenses, net**

In the reporting period, financing expenses (including revaluation of index-linked options) totaled \$67.6 million, compared with \$41.6 million in the corresponding period last year. The Increase is primarily attributable to the financing expenses due to new properties the company purchased during 2007 and from an increase in the Israeli CPI of 2.34% during the period compared to 0.97% in the corresponding period last year which impacted the index-linked liabilities in Israel.

The financing expenses in the report period include \$57.2 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.

## **Net income**

The net income of the Company in the reporting period amounted to \$15 million, compared to \$43.9 million in the corresponding period last year.

The decrease is primarily attributable to the fact that during the period, the Company recorded income on the adjustment of the fair value of rental and other property, net, amounting to \$1.2 million, while in the corresponding quarter last year, the Company included income from this item totalling \$52.9 million. In addition, during the period, there were significant changes in the exchange rates of currencies in relation to the shekel (as set forth above), which impacted the Company's results of operations.

## **Cash flows**

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

During the reporting period operating activities provided the Company with cash flows totalling \$14.1 million, as compared with \$13 million in the corresponding period last year.

### **Cash flows from investing activities and financing activities**

During the period, the Company did not make any material investments in real estate, and accordingly, the amounts of cash flows used in investing activities and which were provided by financing activities are not material.

The cash flow from selling of yielding assets in the report period is \$57.2 million.

**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.

With regard to Company's investments in marketable securities – see paragraph 16 in the Report of the Business Description of the Company as of December 31, 2007. Company management reports from time to time to the Board of Directors on the market risks and the Company's exposure to them. The means taken to reduce the risks are presented to the Board of Directors for its approval.

**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 29 in the Report of the Business Description of the Company as of December 31, 2007.

**E. Linkage Basis Report**

See the appendix A, attached hereto.

**F. Accounting estimates – see the Report of the Board of Directors of the Company as of December 31, 2007**

**G. 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.

## H. Events during the balance period

On March 17, 2008, the Audit Committee and the Board of Directors of the Company approved a resolution that the management fees and grants paid by the Company to the controlling shareholder therein (Elco Holdings Ltd. (hereinafter "Elco") and three managers would be restricted to the annual maximum amount of \$ 7.6 million linked to the Israeli consumer price index for the month of November 2007 (hereinafter, "the top bar"), for a three-year period commencing 2007 to 2009. Accordingly, each one of the managers and Elco will be entitled to the relevant proportion of the Company's pre-tax profit, and, in any case, not more than the proportional share of the top bar to be calculated as the total proportional share of the annual management fees and grants paid by the Company (10.2%). The impact of the resolution is reflected in the fourth quarter of the year. The arrangement with Elco was approved as an eligible transaction pursuant to the provisions of Companies Law and the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (hereinafter, "the Relief Regulations").

## I. Events after the balance period

1. On August 18, 2008, the Board of Directors approved a resolution to distribute a cash dividend of NIS 0.75 (approximately \$0.22) gross per share. The determining date is August 31, 2008 and the payment date is September 14, 2008.
2. In the period between the balance sheet date (June 30, 2008) and the publication date of the financial statements for the second quarter of 2008 (August 18, 2008), there were changes in exchange rates in relation to the shekel, including currencies in countries in which the Company operates.

### Details on the aforesaid changes are as follows: (between June 30, 2008 and August 17, 2008)

Currency	Rate's Change (in %):
US Dollar	+ 7.1%
Euro	- 0.1%
Pound Sterling	- 0.3%
Swiss Franc	- 0.7%
Canadian Dollar	+ 1.3%

Since a significant part of the Company's revenues are in foreign currency, the Company estimates that the changes in the exchange rates, correct as of the publication date of this report, may have an impact on the Company's results and balance sheet (including the Company's shareholders' equity) at a weighted rate of approximately 1%. However, the effect of exchange rates on the operating results for the next quarter in according to the exchange rates that actually occur throughout the entire quarter and at its end (September 30, 2008).

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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**Daniel Salkind (\*)**  
Director

**August 18, 2008**

(\*) Due to the absence of the Chairman of the Board of Directors from Israel, on August 18, 2008, the Board authorized Mr Daniel Salkind, a director in the Company, to sign the Report of the Board of Directors on the Affairs of the Company for the six month period ended in June 30, 2008, in place of the Chairman.

## Appendix A

### Balance sheet linkage basis – June 30, 2008

(Table 1)

	Linked to Foreign Currency	CPI- linked	Unlinked	Balance	Balance- sheet total
	(in thousand US dollars)				
Cash and cash equivalents	83,406	-	63,538	-	146,944
Short term deposits	14,285	-	-	-	14,285
Marketable securities	587	1,685	1,369	-	3,641
Trade accounts receivable	7,998	-	732	-	8,730
Current tax assets	1,908	-	79	-	1,987
Receivables and other current assets	5,987	-	566	4,295	10,848
Yielding property intended for disposal	-	-	-	-	-
Inventory of land	-	-	-	24,405	24,405
Investments in affiliates	91,936	-	-	93,117	185,053
Other investment	36,374	-	-	42,037	78,411
Long-term loans and receivables	51,190	-	1,670	-	52,860
Deferred income taxes	-	-	-	1,297	1,297
Fixed assets	-	-	-	573	573
Yielding assets	-	-	-	2,623,651	2,623,651
<b>Total assets</b>	<b>293,671</b>	<b>1,685</b>	<b>67,954</b>	<b>2,789,375</b>	<b>3,152,685</b>
Bank borrowings (including current maturities)	130,519	21,260	18,155	-	169,934
Trade accounts payable	1,783	-	1,034	-	2,817
Payables and other current liabilities	60,504	-	18,410	-	78,914
Current tax liabilities	6,397	826	-	-	7,223
<b>Loans for financing yielding assets:</b>					
Israel	-	31,852	15,595	-	47,447
Britain	216,137	-	-	-	216,137
North America	493,248	-	-	-	493,248
Europe	1,399,735	-	-	-	1,399,735
Other long-term liabilities	33,381	-	-	-	33,381
Debentures	-	142,703	-	-	142,703
Loan from Electra Group companies	24,273	-	-	-	24,273
Loans from shareholders in subsidiaries	2,903	-	-	-	2,903
Liabilities in respect of index-linked options	-	-	-	999	999
Long-term loan to finance development project	-	-	18,016	-	18,016
Employee benefit liability, net	-	-	-	822	822
Deferred income taxes	-	-	-	84,255	84,255
Minority interest	-	-	-	7,492	7,492
<b>Total liabilities</b>	<b>2,368,880</b>	<b>196,641</b>	<b>71,210</b>	<b>93,568</b>	<b>2,730,299</b>
Net balance sheet amount	(2,075,209)	(194,956)	(3,256)	2,695,807	422,386
Classification of balances linked to the functional currencies of autonomous units	2,083,407	194,956	3,256	(2,695,807)	(414,188)
<b>Total exposure of assets (liabilities)</b>	<b>8,198</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,198</b>

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

	<u>US Dollar</u>	<u>Sterling</u>	<u>Euro</u>	<u>Canadian dollar</u>	<u>Other</u>	<u>Linked to foreign currency</u>
	(in thousand US dollars)					
Cash and cash equivalents	12,225	3,553	51,913	13,249	2,466	83,406
Short term deposits	3,787	-	5,518	4,882	98	14,285
Marketable securities	587	-	-	-	-	587
Trade accounts receivable	69	2,377	2,215	2,364	973	7,998
Current tax assets	1,896	-	6	6	-	1,908
Receivables and other current assets	1,155	344	3,831	572	85	5,987
Yielding property intended for disposal	-	-	-	-	-	-
Inventory of land	-	-	-	-	-	-
Investments in affiliates	75,000	-	16,936	-	-	91,936
Other investment	-	36,374	-	-	-	36,374
Long-term loans and receivables	1,728	10,447	31,711	7,304	-	51,190
Deferred income taxes	-	-	-	-	-	-
Fixed assets	-	-	-	-	-	-
Yielding assets	-	-	-	-	-	-
<b>Total assets</b>	<b>96,447</b>	<b>53,095</b>	<b>112,130</b>	<b>28,377</b>	<b>3,622</b>	<b>293,671</b>
Bank borrowings (including current maturities)	40,704	10,767	51,464	19,717	7,867	130,519
Trade accounts payable	-	-	348	1,271	164	1,783
Payables and other current liabilities	9,560	6,191	32,440	9,911	2,402	60,504
Current tax liabilities	-	-	5,409	988	-	6,397
Loans for financing yielding assets:						
Israel	-	-	-	-	-	-
Britain	-	216,137	-	-	-	216,137
North America	185,209	-	-	308,039	-	493,248
Europe	-	-	1,315,255	-	84,480	1,399,735
Other long-term liabilities	20,656	-	3,942	8,783	-	33,381
Debentures	-	-	-	-	-	-
Loan from Electra Group companies	-	-	-	24,273	-	24,273
Loans from shareholders in subsidiaries	-	-	-	2,903	-	2,903
Liabilities in respect of index-linked options	-	-	-	-	-	-
Long-term loan to finance development project	-	-	-	-	-	-
Employee benefit liability, net	-	-	-	-	-	-
Deferred income taxes	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
<b>Total liabilities</b>	<b>256,129</b>	<b>233,095</b>	<b>1,408,858</b>	<b>375,885</b>	<b>94,913</b>	<b>2,368,880</b>
Net balance sheet amount	(159,682)	(180,000)	(1,296,728)	(347,508)	(91,291)	(2,075,209)
Classification of balances linked to the functional currencies of autonomous units	167,880	180,000	1,296,728	347,508	91,291	2,083,407
<b>Total exposure of assets (liabilities)</b>	<b>8,198</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,198</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, 2008 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, 2008, 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 18, 2008.

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 82% of the total consolidated balance at June 30, 2008 and revenues 85% and 80% of the total consolidated revenues, for the six and three months periods then ended, respectively. We did not review the financial statements of investee companies, in which the Company's investment as of June 30, 2008 amounted to \$132.8 millions and the Company's share in their results amounted to \$1390.2 and \$464.5 thousand for the six and three months periods then ended, respectively. 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, 2008. Comparative figures for the six and three months periods ended June 30, 2007 and for the year ended December 31, 2007 represent a translation of the original NIS values of the respective period, using the representative dollar exchange rate in effect on June 30, 2008. 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 18, 2008**

**ELECTRA REAL ESTATE LTD.  
CONSOLIDATED BALANCE SHEETS  
CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	<u>June 30,</u>		<u>December 31,</u>
	<u>2008</u>	<u>2007</u>	<u>2007</u>
	<u>In thousands</u>		<u>In thousands</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
<b>ASSETS</b>			
<b><u>Current assets</u></b>			
Cash and cash equivalents	146,944	62,671	140,616
Short-term deposits	14,285	42,943	17,674
Marketable securities	3,641	3,424	3,502
Trade accounts receivable	8,730	7,390	9,300
Current tax assets	1,987	80	1,079
Receivables and other current assets	10,848	13,338	12,166
Yielding property intended for disposal	-	45,664	7,541
	<u>186,435</u>	<u>175,510</u>	<u>191,878</u>
<b><u>Un-current assets</u></b>			
Investments in affiliates	185,053	147,237	207,950
Loans and long-term receivables	52,860	48,483	31,826
Fixed assets	573	534	500
Inventory of land	24,405	18,696	17,629
Other investment	78,411	94,287	96,511
Deferred income taxes	1,297	697	456
	<u>342,599</u>	<u>309,934</u>	<u>354,872</u>
<b><u>Yielding assets in -</u></b>			
Israel	210,446	170,613	187,801
Britain	217,234	79,891	251,619
North America	626,910	645,046	727,544
Europe	1,569,061	1,407,665	1,728,505
	<u>2,623,651</u>	<u>2,303,215</u>	<u>2,895,469</u>
	<u>3,152,685</u>	<u>2,788,659</u>	<u>3,442,219</u>

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**

	<u>June 30,</u>		<u>December 31,</u>
	<u>2008</u>	<u>2007</u>	<u>2007</u>
	<u>In thousands</u>		<u>In thousands</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
<b>LIABILITIES AND EQUITY</b>			
<b><u>Current liabilities</u></b>			
Bank borrowings (including current maturities)	169,934	178,753	158,138
Current tax liabilities	7,223	7,086	1,884
Trade accounts payable	2,817	2,779	3,595
Payables and other current liabilities	78,914	(*) 67,681	81,845
	<u>258,888</u>	<u>256,299</u>	<u>245,462</u>
<b><u>Non current liabilities</u></b>			
Debentures	142,703	153,703	139,098
Long-term loans to finance development projects	18,016	17,067	16,326
Liabilities in respect of index-linked options	999	17,549	3,742
Loans from Electra Group companies	24,273	33,051	33,231
Loans from shareholders in subsidiaries	2,903	6,359	3,524
Loan from affiliate company	-	6,217	6,022
Employee benefit liability, net	822	593	643
Other long-term liabilities	33,381	(*) 13,959	28,768
Deferred income taxes	84,255	87,091	97,606
	<u>307,352</u>	<u>335,589</u>	<u>328,960</u>
Loans for financing yielding assets investments:			
Britain	216,137	78,453	249,223
North America	493,248	434,114	575,129
Europe	1,399,735	1,224,067	1,525,015
Israel	47,447	37,879	39,761
	<u>2,156,567</u>	<u>1,774,513</u>	<u>2,389,128</u>
<b><u>Equity</u></b>			
Equity attributable to the Company's shareholders	422,386	411,615	470,643
Minority interests	7,492	10,643	8,026
Total equity	<u>429,878</u>	<u>422,258</u>	<u>478,669</u>
	<u>3,152,685</u>	<u>2,788,659</u>	<u>3,442,219</u>

(\*) Reclassified.

**Tel - Aviv, August 18, 2008**

<b>Approval date of the financial statements</b>	<b>Zvi Duskin</b> CFO	<b>Shlomo Sherf</b> CEO	<b>Daniel Salkind (*)</b> Director
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(\*) Due to the absence of the Chairman of the Board of Directors from Israel, on August 18, 2008, the Board authorized Mr. Daniel Salkind, a director in the Company, to sign the Report Financial statement for the six month period ended in June 30, 2008, in place of the Chairman.

**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 31,
	2008	2007	2008	2007	2007
	In thousands		In thousands		In thousands
	(Unaudited)		(Unaudited)		(Audited)
<b>Revenues</b>					
Rental fees, management fees and others	119,393	82,056	58,704	46,826	212,874
Adjustment of fair value, results of disposal of yielding properties and others net	1,231	52,852	(646)	30,424	79,532
Company's share in earnings of affiliates, net	2,676	2,694	1,393	2,968	6,161
<b>Total revenues</b>	<b>123,300</b>	<b>137,602</b>	<b>59,451</b>	<b>80,218</b>	<b>298,567</b>
<b>Costs and Expenses</b>					
Operating expenses and maintenance fees	35,165	26,741	17,325	14,451	66,315
General and administrative expenses	5,067	9,264	2,465	5,382	13,574
Financing expenses	72,984	39,711	38,752	23,491	116,002
Financing income from financial assets	(2,683)	(2,051)	(1,447)	(905)	(4,268)
Revaluation of liabilities in respect of index-linked options	(2,743)	3,979	(1,082)	(758)	955
<b>Total costs and expenses</b>	<b>107,790</b>	<b>77,644</b>	<b>56,013</b>	<b>41,661</b>	<b>192,578</b>
<b>Pre-tax income</b>	<b>15,510</b>	<b>59,958</b>	<b>3,438</b>	<b>38,557</b>	<b>105,989</b>
Tax Expenses (Benefit)	510	16,070	(750)	9,907	23,610
<b>Net income for the period</b>	<b>15,000</b>	<b>43,888</b>	<b>4,188</b>	<b>28,650</b>	<b>82,379</b>
<b>Attributable to:</b>					
The Company's shareholders	14,925	43,168	4,196	27,952	81,811
Minority interest	75	720	(8)	698	568
<b>Net income for the period</b>	<b>15,000</b>	<b>43,888</b>	<b>4,188</b>	<b>28,650</b>	<b>82,379</b>
<b>Earnings per share (in dollars) attributed to the Company's shareholders:</b>					
Basic	0.57	1.72	0.16	1.12	3.19
Diluted	0.56	1.70	0.16	1.04	3.14
<b>Weighted average number of ordinary shares used in the calculation of earnings per share (in thousands):</b>					
Basic	26,265	25,076	26,265	25,077	25,645
Diluted	26,442	25,367	26,395	26,118	26,320

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  
(Unaudited)**

**Six months ended June 30, 2008**

	<u>Share Capital</u>	<u>Share premium</u>	<u>Capital reserve from foreign currency translation adjustment</u>	<u>Share based Payments</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total shareholder sequity</u>	<u>Minority Interests</u>	<u>Total equity</u>
					(In thousands)				
<b>Balance - January 1, 2008</b>	1	153,082	922	1,333	19,805	295,500	470,643	8,026	478,669
Adjustments on the translation of financial statements of overseas activities, net	-	-	(43,608)	-	-	-	(43,608)	(609)	(44,217)
Revaluation of available for sale assets	-	-	-	-	(18,100)	-	(18,100)	-	(18,100)
Revaluation of cash flow hedges	-	-	-	-	(1,602)	-	(1,602)	-	(1,602)
Total income recognized directly in equity	-	-	(43,608)	-	(19,702)	-	(63,310)	(609)	(63,919)
Net income for the period	-	-	-	-	-	14,925	14,925	75	15,000
<b>Total income for the year</b>	-	-	(43,608)	-	(19,702)	14,925	(48,385)	(534)	(48,919)
Share-based payment	-	-	-	128	-	-	128	-	128
<b>Balance – June 30, 2008</b>	<u>1</u>	<u>153,082</u>	<u>(42,686)</u>	<u>1,461</u>	<u>103</u>	<u>310,425</u>	<u>422,386</u>	<u>7,492</u>	<u>429,878</u>

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  
(Unaudited)**

**Six months ended June 30, 2007**

	<u>Share Capital</u>	<u>Share premium</u>	<u>Capital reserve from foreign currency translation adjustment</u>	<u>Share based Payments</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total shareholder equity</u>	<u>Minority Interests</u>	<u>Total equity</u>
	(In thousands)								
<b>Balance - January 1, 2007</b>	1	125,347	2,385	833	9,703	213,689	351,958	10,754	362,712
Adjustments on the translation of financial statements of overseas activities, net	-	-	15,976	-	-	-	15,976	171	16,147
Revaluation of cash flow hedges	-	-	-	-	180	-	180	-	180
Total income recognized directly in equity	-	-	15,976	-	180	-	16,156	171	16,327
Net income for the period	-	-	-	-	-	43,168	43,168	720	43,888
<b>Total income for the year</b>	-	-	15,976	-	180	43,168	59,324	891	60,215
Exercise of options	(*) (**)	(*) 83	-	-	-	-	83	-	83
Share-based payment	-	-	-	250	-	-	250	-	250
Dividend paid to minority	-	-	-	-	-	-	-	(1,002)	(1,002)
<b>Balance – June 30, 2007</b>	<u>1</u>	<u>125,430</u>	<u>18,361</u>	<u>1,083</u>	<u>9,883</u>	<u>256,857</u>	<u>411,615</u>	<u>10,643</u>	<u>422,258</u>

(\*) Reclassified.

(\*\*) 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  
(Unaudited)**

Three months ended June 30, 2008

	<u>Share Capital</u>	<u>Share premium</u>	<u>Capital reserve from foreign currency translation adjustment</u>	<u>Share based Payments</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total shareholder sequity</u>	<u>Minority Interests</u>	<u>Total equity</u>
					(In thousands)				
<b>Balance - April 1, 2008</b>	1	153,082	(20,127)	1,397	6,223	306,229	446,805	7,669	454,474
Adjustments on the translation of financial statements of overseas activities, net	-	-	(22,559)	-	-	-	(22,559)	(169)	(22,728)
Revaluation of available for sale assets	-	-	-	-	(5,982)	-	(5,982)	-	(5,982)
Revaluation of cash flow hedges	-	-	-	-	(138)	-	(138)	-	(138)
Total income recognized directly in equity	-	-	(22,559)	-	(6,120)	-	(28,679)	(169)	(28,848)
Net income for the period	-	-	-	-	-	4,196	4,196	(8)	4,188
<b>Total income for the year</b>	-	-	(22,559)	-	(6,120)	4,196	(24,483)	(177)	(24,660)
Share-based payment	-	-	-	64	-	-	64	-	64
<b>Balance – June 30, 2008</b>	1	153,082	(42,686)	1,461	103	310,425	422,386	7,492	429,878

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  
(Unaudited)**

Three months ended June 30, 2007

	<u>Share Capital</u>	<u>Share premium</u>	<u>Capital reserve from foreign currency translation adjustment</u>	<u>Share based Payments</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total shareholder equity</u>	<u>Minority Interests</u>	<u>Total equity</u>
	(In thousands)								
<b>Balance - April 1, 2007</b>	1	125,347	(5,975)	958	10,133	228,905	359,369	9,872	369,241
Adjustments on the translation of financial statements of overseas activities, net	-	-	24,336	-	-	-	24,336	300	24,636
Revaluation of cash flow hedges	-	-	-	-	(250)	-	(250)	-	(250)
Total income recognized directly in equity	-	-	24,336	-	(250)	-	24,086	300	24,386
Net income for the period	-	-	-	-	-	27,952	27,952	698	28,650
<b>Total income for the year</b>	-	-	24,336	-	(250)	27,952	52,038	998	53,036
Exercise of options	(*) (**)	(*) 83	-	-	-	-	83	-	83
Share-based payment	-	-	-	125	-	-	125	-	125
Dividend paid to minority	-	-	-	-	-	-	-	(227)	(227)
<b>Balance – June 30, 2007</b>	<u>1</u>	<u>125,430</u>	<u>18,361</u>	<u>1,083</u>	<u>9,883</u>	<u>256,857</u>	<u>411,615</u>	<u>10,643</u>	<u>422,258</u>

(\*) Reclassified.

(\*\*) 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  
(Audited)**

Year ended December 31, 2007

	<u>Share Capital</u>	<u>Share premium</u>	<u>Capital reserve from foreign currency translation adjustment</u>	<u>Share based Payments</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total shareholder equity</u>	<u>Minority Interests</u>	<u>Total equity</u>
	(In thousands)								
<b>Balance - January 1, 2007</b>	1	125,347	2,385	833	9,703	213,689	351,958	10,754	362,712
Adjustments on the translation of financial statements of overseas activities, net	-	-	(1,463)	-	-	-	(1,463)	1,107	(356)
Revaluation of available for sale assets	-	-	-	-	8,389	-	8,389	-	8,389
Revaluation of cash flow hedges	-	-	-	-	1,713	-	1,713	-	1,713
Total income recognized directly in equity	-	-	(1,463)	-	10,102	-	8,639	1,107	9,746
Net income for the period	-	-	-	-	-	81,811	81,811	568	82,379
<b>Total income for the year</b>	-	-	(1,463)	-	10,102	81,811	90,450	1,675	92,125
Exercise of options	(*)	27,735	-	-	-	-	27,735	-	27,735
Share-based payment	-	-	-	500	-	-	500	-	500
Dividend paid to minority	-	-	-	-	-	-	-	(4,403)	(4,403)
<b>Balance – December 31, 2007</b>	<u>1</u>	<u>153,082</u>	<u>922</u>	<u>1,333</u>	<u>19,805</u>	<u>295,500</u>	<u>470,643</u>	<u>8,026</u>	<u>478,669</u>

(\*) Less than \$1 thousand.

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		Three months ended		Year ended
	30,		June 30,		December 31,
	2008	2007	2008	2007	2007
	In thousands		In thousands		In thousands
	(Unaudited)		(Unaudited)		(Audited)
<b>Cash Flow - Operating Activities:</b>					
Net income	15,000	43,888	4,188	28,650	82,379
Adjustments required to present cash flows from operating activities (Appendix A)	(927)	(30,926)	2,719	(22,723)	(50,953)
<b>Net cash provided by operating activities</b>	<b>14,073</b>	<b>12,962</b>	<b>6,907</b>	<b>5,927</b>	<b>31,426</b>
<b>Cash Flows - Investing Activities:</b>					
Proceeds from the sale (invest) of marketable securities, net	(200)	10,416	-	5,881	10,193
Collection (Giving) of Long-term loans	(8,790)	(14,404)	(8,432)	(5,597)	736
Proceeds from the sale of investees that were proportionately consolidated (Appendix B)	-	27,920	-	20,579	27,920
Realization of short-term deposits, net	1,337	(30,651)	6,388	(18,632)	4,223
Change in long-term deposit	(13,233)	30,704	(13,233)	-	30,014
Investments in shares of affiliates and other companies	(1,620)	(46,213)	(1,620)	(5,954)	(92,138)
Initial proportional consolidation of an affiliate (Appendix C)	(3,244)	-	-	-	-
Initial full consolidation of a subsidiary (Appendix D)	-	(8,019)	-	-	(55,434)
Acquisition and construction of yielding assets	(13,892)	(1,027,332)	(7,498)	(623,913)	(1,423,554)
Acquisition of fixed assets and other assets	(157)	(6)	-	-	(9)
Proceeds from disposition of yielding properties	57,160	-	55,717	-	79,398
<b>Net cash used in investing activities</b>	<b>17,361</b>	<b>(1,057,585)</b>	<b>31,322</b>	<b>(627,636)</b>	<b>(1,418,651)</b>
<b>Cash Flows - Financing Activities:</b>					
Dividend paid to minority shareholders in a subsidiary	-	(1,002)	-	(227)	(4,403)
Issuance of shares, net of issuance expenses	-	48	-	48	16,988
Receipt of long-term loans	36,687	1,028,021	7,855	636,688	1,493,640
Repayment of long-term loans	(64,273)	(12,579)	(33,435)	(8,949)	(65,067)
Repayment of loans and capital notes from the Electra Group companies, net	(4,945)	-	-	-	-
Receipt (Repayment) of loans and capital notes from minority shareholders in consolidated subsidiaries, net	-	1,410	-	332	(1,335)
Receipt (Repayment) of loan from affiliate companies	-	(26,060)	-	4,645	(26,794)
Short-term bank borrowings, net	12,943	41,762	2,216	6,900	39,845
<b>Net cash provided by financing activities</b>	<b>(19,588)</b>	<b>1,031,600</b>	<b>(23,364)</b>	<b>639,437</b>	<b>1,452,874</b>
<b>Increase (Decrease) in cash and cash equivalents</b>	<b>11,846</b>	<b>(13,023)</b>	<b>14,865</b>	<b>17,728</b>	<b>65,649</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>140,616</b>	<b>74,342</b>	<b>135,417</b>	<b>43,299</b>	<b>74,342</b>
<b>Translation differences relating to cash balances in foreign currency</b>	<b>(5,518)</b>	<b>1,352</b>	<b>(3,338)</b>	<b>1,644</b>	<b>625</b>
<b>Cash and cash equivalents at end of period</b>	<b>146,944</b>	<b>62,671</b>	<b>146,944</b>	<b>62,671</b>	<b>140,616</b>

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		Three months ended		Year ended
	30,		June 30,		December 31,
	2008	2007	2008	2007	2007
	In thousands		In thousands		In thousands
	(Unaudited)		(Unaudited)		(Audited)
<b><u>Appendix A - Adjustments required to present cash flows from operating activities:</u></b>					
<b>Expenses (income) not involving cash flows:</b>					
Company's share in earnings of affiliates, net	(2,676)	(307)	(1,393)	(2,968)	(3,776)
Depreciation and amortization	83	36	63	12	75
Adjustment of fair value and results of disposal of yielding properties, net	(1,231)	(52,852)	646	(30,424)	(79,532)
Loss (Gain) from marketable securities	62	(757)	(34)	(206)	(613)
Recording of expenses in connection with share based payments	128	250	64	125	500
Revaluation of liabilities in respect of index-linked options	(2,743)	3,979	(1,082)	(758)	955
<b>Changes in assets and liabilities:</b>					
Change in value of long-term receivables and liabilities, net (including interest charged to the parent company)	4,686	1,277	4,364	2,770	5,718
Deferred income taxes	(3,124)	13,201	(2,545)	8,012	21,195
Trade accounts receivables	(270)	(5,040)	(381)	(2,791)	(7,013)
Receivables and other current assets	(1,907)	(5,114)	1,780	(3,419)	(2,016)
Trade accounts payables	(508)	(1,844)	342	(4,183)	(975)
Payables and other current liabilities	6,573	16,245	895	11,107	14,529
	(927)	(30,926)	2,719	(22,723)	(50,953)
<b><u>Appendix B - Proceeds from the sale of investees that were full and proportionately consolidated</u></b>					
<b>Net assets and liabilities at acquisition:</b>					
Net working capital (excluding cash)	-	1,407	-	2,546	1,407
Long-term receivables	-	1,932	-	1,932	1,932
Yielding assets, net	-	79,480	-	61,318	79,480
Long-term liabilities	-	(53,028)	-	(43,239)	(53,028)
Gain (loss) from investment realization	-	(1,871)	-	(1,978)	(1,871)
	-	27,920	-	20,579	27,920
<b><u>Appendix C - Initial proportional consolidation of an affiliate</u></b>					
Net working capital (excluding cash)	11,459	10,475	-	-	10,475
Fixed assets and other assets	-	-	-	-	-
Long-term receivables	(1,321)	-	-	-	-
Yielding assets, net	(17,497)	(35,065)	-	-	(35,065)
Investment in affiliates	3,020	14,359	-	-	14,359
Long-term liabilities	1,095	10,231	-	-	10,231
	(3,244)	-	-	-	-

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,
	2008	2007	2008	2007	2007
	In thousands (Unaudited)		In thousands (Unaudited)		In thousands (Audited)
<b><u>Appendix D - Initial consolidation of a subsidiary</u></b>					
Net working capital (excluding cash)	-	1,901	-	-	2,796
Yielding assets, net	-	(76,350)	-	-	(336,843)
Long-term liabilities	-	66,430	-	-	278,613
	-	(8,019)	-	-	(55,434)
<b><u>Appendix E – Additional cash flow information</u></b>					
<b>Cash paid during the year:</b>					
Interest	68,140	23,087	30,859	12,703	74,808
Income taxes	215	78	93	19	3,529
	68,355	23,165	30,952	12,722	78,337
<b>Cash received during the year:</b>					
Interest	1,501	473	588	199	1,551
Income taxes	-	-	-	-	-
	1,501	473	588	199	1,551
<b><u>Appendix F – Non-cash transactions</u></b>					
Purchase of yielding property on credit	1,770	22,261	1,770	22,261	17,574
Conversion of liability for index-linked options to capital	-	-	-	-	10,817

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. (1) 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, 2007 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, 2007, 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, 2008. The adoption of these accounting standards has 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 ,2008 (\$1.00= NIS 3.352).

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 ,2008. Comparative figures for the six and three months periods ended June 30, 2007 and for the year ended December 31, 2007 represent a translation of the original NIS values of the respective period, using the representative dollar exchange rate in effect on June 30 ,2008. 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.

**(2) 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 relief 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 relief 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.** The interim financial statements have been prepared in accordance with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Statements), 5730 – 1970, except for regulations that do not permit the application of IFRS standards, or that which is permitted thereby.

**C. (1) Financial reporting standards and interpretations published, which have not yet come into effect:**

**A. Amendment to IFRS 2 – Share-based payment – terms for vesting and cancellations**

The amendment to the standard provides which vesting conditions should be taken into account in measuring the fair value at the date of granting a share-based payment and explains the accounting treatment of instruments without terms for vesting and cancellations.

The provisions of the amendment will apply in respect of annual reporting periods commencing January 2009. Earlier application is possible.

At this stage, the Group management is not in a position to estimate the effect of implementing the interpretation on its financial position and results of operations.

**B. Amendment IAS 32 – Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements**

The amendment to IAS 32 alters the definition of financial liability, financial asset and capital instrument, and provides that certain financial instruments that are realizable in the hands of the holder, should be classified as capital instruments.

The provisions of the amendment will apply in respect of annual reporting periods commencing January 1, 2009. Earlier application is possible.

At this stage, the Group management is not in a position to estimate the effect of implementing the interpretation on its financial position and results of operations.

**C. Amendment IFRIC 15 Agreements to construct real estate**

The interpretation provides the accounting treatment of revenues and related expenses of entities which are engaged in the construction of real estate independently or through sub-contractors, and in the supply of goods or services included in the framework of agreements for the construction of real estate. The interpretation deals with the determination of whether an agreement for the construction of real estate comes within the incidence of IAS 11 "Construction contracts" or IAS 18 "Revenues". The revenues from the agreements, which, pursuant to the provisions of the interpretation come within the incidence of IAS 11, are recognized according to the rate of completion method. Revenues from agreements, which, pursuant to the provisions of the interpretation, represent agreements for the supply of goods, will be recognized on the date of transferring the risks and benefits to the purchaser, and revenues from agreements for the supply of services will be recognized according to the stage of completion of the transaction at the balance sheet date. The provisions of the interpretation apply in respect of annual reporting periods commencing January 1, 2009. Early implementation is possible.

At this stage, the Group management is not in a position to estimate the effect of implementing the interpretation on its financial position and results of operations.

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

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

**C. (1) Financial reporting standards and interpretations published, which have not yet come into effect: (Cont.)**

**D. Amendment to IFRIC 16, Hedges of a net investment in a foreign operation**

The interpretation provides the nature of the defined risk and the amount of the defined item pursuant to the hedging of a net investment in a foreign operation. In addition, the interpretation provides that the defining instrument may be held by one of the entities in the Group, and the extent of the amount that will be classified from the shareholders' equity to the statement of operations on realization of the foreign operation, in respect of which the accounting of the hedging of the net investment in a foreign operation was applied.

The provisions of the interpretation apply in respect of annual reporting periods commencing January 1, 2009. Early implementation is permitted.

At this stage, the Group management is not in a position to estimate the effect of implementing the interpretation on its financial position and results of operations.

**(2) Improvements to 2008 international financial reporting standards**

In May 2008, the IASB published a series of improvements to the international financial reporting standards.

As part of the improvements, amendments were made to some of the standards, changing the method of presentation, recognition and measurement of various items in the financial statements. In addition, amendments were made to the wordings that have a negligible, if any, impact on the financial statements. Most of the amendments will come into effect from the annual reporting period commencing January 1, 2009 or thereafter, with the possibility of earlier adoption. The implementation of most of the amendments will be effected by way of retroactive adjustment of comparative figures. As part of the amendments that were made, there are a number of amendments which are expected to have, in relevant circumstances, a significant impact on the financial statements, the main ones being the new or amended requirements regarding:

**A. Amendment to IFRS 5, Non-current assets held for sale and discontinued activities**

The amendment provides that when a parent company is obliged to implement a plan for the sale of the controlling rights of a subsidiary, the assets and liabilities therein should be classified as held for sale, even when it intends to retain rights that do not give it control. The amendment will be in effect in respect of reporting periods commencing January 1, 2010. The amendment allows for early application. An entity that is interested on applying the standards in prior periods is obliged to implement the provisions of IAS 27 (amended). Implementation will be by prospective application.

At this stage, the Group management is not in a position to estimate the effect of implementing the interpretation on its financial position and results of operations.

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

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

**C. Financial reporting standards and interpretations published, which have not yet come into effect: (Cont.)**

**(2) Improvements to 2008 international financial reporting standards (Cont.)**

**B. Amendment to IAS 28, Investments in affiliates**

The amendment provides that a decline in the value of an investment in an affiliate should be dealt with as a decline in value of a single asset, and that the amount of the decline in value may be cancelled in subsequent periods. The amendment will apply in respect of annual periods commencing January 1, 2009,. The amendment allows for early application, implementing the related amendments to paragraph 4 of IAS 32 "Financial instruments: Presentation", paragraph 1 of IAS 31 "Right in joint transactions" and paragraph 3 of IFRS 7 "Financial instruments: Disclosures". The amendment may be implemented prospectively.

At this stage, the Group management is not in a position to estimate the effect of implementing the interpretation on its financial position and results of operations.

**C. Amendment to IAS 40, Investment property**

The amendment provides that investment property under construction should be dealt with in accordance with the provisions of IAS 40. Prior to the amendment, the aforesaid investment property was dealt with pursuant to IAS 16 "Fixed assets". The amendment will apply in respect of annual periods commencing January 1, 2009. Implementation will be by prospective application. The standard permits application at an earlier date, providing the fair value of the investment property under construction is determined at the date provided for early application.

At this stage, the Group management is not in a position to estimate the effect of implementing the interpretation on its financial position and results of operations.

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

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

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

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

	<u>June 30,</u>		<u>December 31,</u>		
	<u>2 0 0 8</u>	<u>2 0 0 7</u>	<u>2 0 0 7</u>		
	<u>(Unaudited)</u>		<u>(Audited)</u>		
CPI (in points)	195.62	186.67	191.15		
<u>In NIS:</u>					
US Dollar	3.35	4.24	3.84		
Pound Sterling	6.67	8.50	7.71		
Canadian Dollar	3.32	4.19	3.92		
Euro	5.28	5.71	5.56		
Swiss Franc	3.29	3.44	3.42		
	<u>Six months</u>		<u>Three months</u>		<u>Year</u>
	<u>ended June 30,</u>		<u>ended June 30,</u>		<u>ended</u>
	<u>2 0 0 8</u>	<u>2 0 0 7</u>	<u>2 0 0 8</u>	<u>2 0 0 7</u>	<u>December 31,</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		<u>2 0 0 7</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		<u>(Audited)</u>
Change in exchange rate during the period then ended (in %):					
CPI	2.34	0.97	2.25	1.21	3.40
US Dollar	(12.76)	0.57	(5.63)	2.26	(8.97)
Pound Sterling	(13.49)	2.63	(5.52)	4.69	(6.96)
Canadian dollar	(15.31)	10.40	(4.60)	11.63	7.74
Euro	(6.71)	2.68	(6.05)	3.23	1.70
Swiss Franc	(3.80)	(0.46)	(7.84)	1.25	(1.31)

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

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

- (1) The Company has signed a sale agreement whereby, together with its partners, it undertook to sell all of its rights in an office block, to be built at 58 – 68, Harakevet Street, Tel Aviv, including the ground floor, which is intended for commerce and/or offices, and 22 or 23 floors above, intended for office space, with 5 basement floors, for parking/storage. The Company's share in the project is 33.33%. The consideration will be calculated according to the expected yield on the rental, including in accordance with a mechanism, as provided in the agreement. The transaction is subject to compliance with certain fundamental conditions, including the letting of at least 50% of the space available for rental in the building under the terms outlined in the agreement, receipt of approval of occupancy and the commencement of the receipt of rent in respect of the leased parts. The vendors will be entitled to receive a loan from the purchasers, of up to US\$ 15 million (fifteen million dollars), against the extension of an autonomous bank guarantee in favour of the purchasers for the amount of the loan. The loan will linkage differences plus interest at 5% per annum, with effect from the date it is extended and through the date of repayment. On the date of handing over possession of the building to the purchasers, and subject to a number of fundamental conditions, chief of which is the occupancy of 50% of the areas available for rental, the writing off of mortgages registered in the rights of the vendors and the handing over of possession of the building to the purchasers when it is free of any third-party interest (except for tenants' rights), the purchasers will pay the vendors the full amount of the consideration in one lump-sum. In addition, an arrangement was made between the vendors and the purchasers regarding the mode of payment of the proceeds with regard to the areas that are not leased at the date of handing over possession. As of the date of this report, the project is in the preliminary stages of obtaining a building permit and the date of handing over possession is expected to be in 2011.
- (2) During June 2008, Electech Real Estate B.V. ("Electech") a dutch foreign company, wholly owned by the company, which supervise and manage most of the company's activity outside Israel and holds, among others, the rights to 50% of nine properties in Berlin, Germany, sold its entire shareholdings in eight of the nine aforementioned properties. The aggregate sale proceeds from the sale of the eight properties (100%), before expenses, were € 75.5 million (approximately \$119 million) and after selling expenses (100%), € 73.5 million (approximately \$115.8 million). Out of the proceeds, € 14 million 100% (approximately \$ 22 million) (Electech's share is € 7 million), was placed in a deposit which will be reduced in accordance with a mechanism provided in the sales contract. The duration of the deposit period will not exceed 7 years, In respect of its share in this agreement, the Company recorded a liability to guarantee revenue to the purchaser which, as of June 30, 2008, was estimated at € 3 million (approximately \$4.7 million), which is deducted from the gain accruing from the sale. Most of the gain was recorded in previous periods as part of the revaluations of the properties. The balance of the gain totalling € 1.1 million (approximately \$1.7 million) was recorded in this period.

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

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

- (3) In August 2008, the Company purchased one-half of the rights to land in the Old City of Jaffa. The purchase price, before expenses amounting to NIS 2 million (approximately \$0.6 million), is NIS 27.4 million (approximately \$8.2 million). The property consists of plot of land of 5,000 sq. mtrs., on which is situated a listed building, known as "the French Hospital", with an area of 2,500 sq. mtrs. According to the existing City Building Plan, it is possible to construct on the land buildings with a gross area of 15,000 sq. mtrs. for mixed use of a hotel and residential apartments, and also an underground car-park. The Company and its partners intend to construct a luxury hotel with 130 rooms on an area of 10,000 sq. mtrs., using the remaining area (5,000 sq. mtrs.) to construct luxury residential apartments for sale. The Company believes that the project will be completed through the end of 2010. The total expected investment in the project (including the land component) is US\$60 million. with the Company's share being US\$30 million, which will be financed from the Company's own resources and from loans from financial institutions. For the purpose of managing the hotel, a letter of intent (LOI) has been signed with Starwood, which is one of the world's largest and leading international hotel management and holding companies, managing hundreds of hotel throughout the world under several brands. The management contract with Starwood, if signed, will be for a period of 30 years, with an option to extend for a further 10 years.
- (4) On August 18, 2008, the Company declared the distribution of a dividend amounting to \$5,877 thousand (approximately \$0.22 per share).

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

**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.

	<u>Israel</u>	<u>Europe</u>	<u>North America</u>	<u>Total</u>
	<b>US\$ in thousands</b>			
<b>Six months ended June 30, 2008 (Unaudited):</b>				
Segment revenues from external clients	<u>7,298</u>	<u>68,555</u>	<u>47,447</u>	<u>123,300</u>
Segment results from external clients	<u>1,468</u>	<u>11,324</u>	<u>2,718</u>	<u>15,510</u>
<b>Six months ended June 30, 2007 (Unaudited):</b>				
Segment revenues from external clients	<u>11,716</u>	<u>79,084</u>	<u>46,802</u>	<u>137,602</u>
Segment results from external clients	<u>(2,203)</u>	<u>56,256</u>	<u>5,905</u>	<u>59,958</u>
<b>Three months ended June 30, 2008 (Unaudited):</b>				
Segment revenues from external clients	<u>3,846</u>	<u>32,293</u>	<u>23,312</u>	<u>59,451</u>
Segment results from external clients	<u>(1,624)</u>	<u>3,387</u>	<u>1,675</u>	<u>3,438</u>
<b>Three months ended June 30, 2007 (Unaudited):</b>				
Segment revenues from external clients	<u>8,253</u>	<u>44,083</u>	<u>27,882</u>	<u>80,218</u>
Segment results from external clients	<u>2,103</u>	<u>30,079</u>	<u>6,375</u>	<u>38,557</u>
<b>Year ended December 31, 2007 (Audited):</b>				
Segment revenues from external clients	<u>27,021</u>	<u>147,932</u>	<u>123,614</u>	<u>298,567</u>
Segment results from external clients	<u>8,153</u>	<u>65,925</u>	<u>31,911</u>	<u>105,989</u>