

ELECTRA REAL ESTATE LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 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 DECEMBER 31, 2008**

The Board of Directors of Electra Real Estate Ltd. is pleased to submit herewith the financial statements of the Company and its subsidiaries (hereinafter - "the Company") for the year ended December 31, 2008.

A. The Company and its Business Environment

The Company and its investees (hereinafter - "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, 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, 108 assets including 97 yielding assets and 11 assets in various stages of development and construction as well as 9.9% in 58 hotels across Britain, as follows:

<u>Country</u>	<u>Yielding assets</u>	<u>Nature of asset</u>
Israel	15	9 Yielding assets and 6 assets under construction
Britain	4 58	Yielding assets Hotels (Company's share- 9.9%)
Canada	16	Yielding assets
USA	10	9 Yielding assets and 1 asset that is being earmarked for conversion and sale as condo units
Germany	46	Yielding assets
Switzerland	5	Yielding assets
Holland	6	Yielding assets
Belgium	1	Yielding asset
India	5	Assets under development

The Company's in the aggregate area of the rental properties (including the Company's share in the assets of affiliates) is 1,155,000 sq. mtrs., with another 437,000 sq. mtrs. of parking space.

The average occupancy rate of all the rental properties as for the date of the report is approximately 95%.

Economic environment changes

Recently, global markets have undergone a financial crisis, which aggravated in the fourth quarter of 2008, which has been reflected, inter alia, in the collapse of international financial entities, in the nationalization of banks around the world, in an incisive fluctuations in securities value in the stock exchanges all over the world and in a severe credit crisis. Following this crisis significant steps are been taken in USA and other countries in the world to moderate the crisis and to improve the markets state, inter alia, through lowering the interest rate trying to energize the economy and the credit market. Alongside this crisis, a other events have occurred in the Israeli market, which could have an impact on the activities of companies in Israel, among other things, significant fluctuations in the exchange rates of major currencies against the Israeli shekel and an increase in inflation rates in the domestic market.

However, whereas the events that have recently taken place in the capital markets and financial markets in Israel and worldwide do not come within the definition of a specific one-time event, but rather as recurring events with wide repercussions, which can lead to continuance and to aggravation in the retardation of the international economy, the Company does not have the ability, at this point, to assess how the financial crisis that has hit the world economy would, and how it would impact the operating results and the business opportunities available to the Company for the purchase and sale of real estate assets and of credit achievement costs or credit sources availability.

During the report period the global economic crisis did not have a significant impact on the Company's results from its operating activities and assets. However, the Cap Rate which is used for real estate deals in the countries which the company operates had increased, event which generally caused to a decrease in the real estate assets value in those countries. As a result the company recorded a deduction in the real estate asset value in the report period.

Moreover, the events aforementioned influenced the company's scope of real estate acquisitions and transactions for the year ended December 31, 2008, compared with previous years, inter alia, due to worsen in terms for credit recruitment, due to rate leverage reduction and depravation in market terms. The aforementioned events caused and still causing to a significant reduction in the number of real estate transactions in Israel and around the world.

The Company estimate that, if, and as long as, the global crisis deepens and the implications on the domestic market increase, the company's cash flows, financial position and financial stability will enable the Company to withstand the implications of the crisis and finance its activity and meet its liabilities.

In these circumstances, according to the Company's assessment, the Company's assessment is prospective information, for which there is no certainty that it will materialize. The Company's assessment is based on Company's past experience, its familiarity with the markets in which it operates and the credit provision policy of financial institutions and the analysis of general information, available to it as of the date of preparation of this report, including public journal, surveys and studies, whose accuracy and completeness has not been independently examined by the Company. The materialization of the Company's assessment, as aforesaid, is not certain, since it is not subject to external influences which cannot be estimated in advance and that are not under its control, including the risk factors characterizing the Company's activity, the worsening of the economic crisis, changes in the currency exchange rate, the tightening of conditions for raising external sources of finance, a deterioration in the trade and economic conditions for the realization of business opportunities for the purchase and sale of real estate properties, etc. The Company will continue to monitor the financial crisis in world markets in the Company's area of operations.

For the implications of the economic situation and events in the capital markets on the Company's financial position, its operating results, the Company's sources of finance and liquidity, as of the date of this report, see below.

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 |



Activity in Israel

The Company holds seven office 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 six assets under different stages of development and construction.

Transactions during the period:

- Sale of four floors of offices, for aggregate consideration of US\$ 7.1 million.
- An increase of the shareholding percentage (from 25% to 50%) in an office block in Hertzelia.
- The Company has signed a sales agreement to sell all of its rights in an office block, to be built at 58 – 68, Harakevet Street, Tel Aviv.
- An increase of the rights in a plot, from 33% to 50%, in Harakevet Street, Tel Aviv.
- The Company purchased 50% of the rights to a plot of land in the Old City of Jaffa.

Transactions after the report period:

- The Company has signed a principles document to sale three assets in Israel.

For additional details on the Company's investments in yielding assets in Israel, see paragraphs 8.1 – 8.1.7 in the Report of the Business Description of the Company.

Foreign activity

Electech Real Estate B.V (hereinafter: "Electech")

Electech, a Dutch foreign company, wholly owned by the company, coordinates, supervises and manages most of the Company's activity 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, 2008).

As of December 31, 2008, Electech operates in the United States, Germany, Holland, Switzerland, Belgium and India.

Britain

As of the balance-sheet date the Company hold at percentages ranging from 75% to 100%, through investees abroad, four commercial buildings in Britain, leased for periods expiring between 2014 and 2020. The company also holds through foreign investees 9.9% of 16 hotels throughout Britain, managed by Hilton and 9.9% of 42 hotels throughout Britain managed by Marriott.

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

Transactions during the period:

- Agreements to sale the company's full rights (60%) in an asset RBC in London, England. The sale agreement was signed in March 2009.

For additional details on the Company's investments in yielding assets in Britain, see paragraphs 8.3.1 – 8.3.1.4 in the Report of the Business Description of the Company.

Canada

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in 16 commercial buildings in Canada including one logistic center, at various rates ranging from 55% to 100% in lease contracts for periods which ends between 2009 and 2022.

Transactions during the period:

- Acquisition of ownership rights in a plot (that was under a lease till that date) in Metro complex, Montreal.
- The Company repaid a short-term loan in Canada of Can\$ 10.5 million (approximately US\$ 9.1 million) by way of refinancing by the receipt of a long-term loan of Can\$ 10.7 million (approximately US\$ 9.3 million) for repayment over three years.

For additional details on the Company's investments in yielding assets in Canada, see paragraphs 8.2.1 – 8.2.1.4 in the Report of the Business Description of the Company.

USA

As of the balance sheet date, Electech holds a wholly owned foreign subsidiary, Electech Real Estate Inc. (hereinafter: "Electech Inc"), foreign corporations (LLC) which own the rights to 10 office buildings in the United States, two of which are held at a rate of 60% in lease contracts for periods which ends between 2009 and 2022 and 8 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 the USA which is engaged in the purchase, improvement, management and sale of rental property, mainly in the United States.

Transactions during the period:

- The purchase of 49% of the rights in 2 office blocks in Norfolk, Virginia, USA.

Transactions after the report period:

- A decrease in the holding portion of HGI from 25% to 20%.

For additional details on the Company's investments in yielding assets in USA, see paragraphs 8.2.2 – 8.2.2.6 in the Report of the Business Description of the Company.

Europe (Germany, Holland, Switzerland and Belgium)

At the balance-sheet date, through its foreign subsidiaries Electech holds rights in fifty eight buildings in Germany, Holland, Switzerland and Belgium of which, 53 buildings at a shareholding rate of between 50% and 100% in rental contracts ending in the years 2009-2033. 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.
- Acquisition of an office block in Biel, Switzerland – Electech has purchased 50% of the rights in the building through a subsidiary.
- Sale of 8 properties in Berlin, Germany – Electech, which held the rights to 50% of 8 properties, sold its entire holdings therein.
- Electech purchased through a subsidiary 50% of the rights in a loan from a foreign financial institution (hereinafter - "the loan") which was extended to a jointly-controlled company (60%) of Company.

Transactions after the report period:

- Acquisition of three shopping centers Hornbach, in accordance to a framework agreement signed in 2006.
- Acquisition of a loan from a foreign financial institute to repay a part of the loan granted to a jointly-controlled company (70%) of Electech.

For additional details on the Company's investments in yielding assets in Europe, see paragraphs 8.3.2 – 8.3.4.4 in the Report of the Business Description of the Company.

India

As of the balance sheet date, Electech, through foreign subsidiaries, holds 5 plots of land with share holding percentages ranging from 40.8% to 44.1%. The plots are private and are located in the cities of Hyderabad, Maisur and Chenai in India. The plots are intended for the construction of housing, commercial and office projects. The company intends to plan and construct on the plots approximately 7,000 condo units and commerce and/or office buildings with a total space of 370,000 sq. mtrs. The global crisis in the financial markets has caused a slowdown in the rate of growth and demand for apartment in India.

In the second half of 2008 the company started a preliminary marketing of Phase A of the first project which is in the city of Hyderabad, of about 370 condo units, in two buildings.

For additional details on the Company's investments in yielding assets in India, see paragraphs 8.4 – 8.4.6 in the Report of the Business Description of the Company.

B. Financial Position

Total assets as of the balance sheet date amounted to \$2,537 million, compared with \$3,035 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, from sale of eight properties in Germany and from sale of property in Britain as aforementioned in paragraph A.

Details on the change in exchange rates in relation to the shekel

Currency	Rate Change between 31/12/2007-31/12/2008 (in %):	Weighted rate Change of quarters in 2008 compared with 2007 (in %): (*)
US Dollar	- 1.1%	- 12.5%
Euro	- 6.4%	- 6.5%
Pound Sterling	- 28.0%	- 19.4%
Swiss Franc	+ 4.2%	- 3.0%
Canadian Dollar	- 20.7%	- 11.6%

(*) According to acceptable accounting roles, incomes and expenses specified in foreign currency are being translated according to exchange rates average in the report period.

Current assets

Total current assets as of the balance sheet date amounted to US\$ 103 million, compared with US\$ 169 million as of the end of 2007. The reduction in current assets is primarily attributable to a fall in cash balances for the repayment of the Company's bonds, self-purchase of the company's bonds, investment made by the company to acquire yielding assets and land for construction during the report period and the payment of a dividend to the shareholders.

Non current assets

Non current assets as of the balance sheet date amounted to US\$ 261 million as compared with US\$ 313 million on December 31, 2007. The reduction in non-current assets is primarily attributable to a fall in other financial investments as a result of the weakness of their functional currency (the pound sterling) in relation to the shekel.

Yielding assets

Total yielding assets as of the balance sheet date amounted to US\$ 2,172. million as compared with US\$ 2,553 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 properties aforementioned.

The Company's share in the yielding assets (respectively to its holding portion in each company) of its affiliates as of the balance sheet date totals US\$ 343 million.

Current liabilities

Total current liabilities as of the balance sheet date amounted to US\$ 238 million as compared with US\$ 216 million on December 31, 2007. The increase is primarily attributable to the allocation of a loan which, in previous periods, was included in long-term liabilities, to current liabilities. For additional details on the company's assumptions of repayment its current liabilities see paragraph "Forecast cash flows for financing the repayment of the Company's liabilities" below.

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 US\$ 1,982 million as compared with US\$ 2,396 million on December 31, 2007. The decrease in the liabilities is mainly attributed to the change in exchange rates in the report period and from repayments of loans used to finance asset that sold during the report period. As of the balance sheet date the bank loans, which amounted to US\$ 1,558 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 (respectively to its holding portion in each company) of its affiliates as of the balance sheet date totals US\$ 254 million. These are non-recourse loans.

Shareholders' equity

The Company's shareholders' equity at the balance sheet date was US\$ 317 million compared with US\$ 422 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 US\$ 81 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), from dividend distribution amounting US\$ 5.3 million and from the loss for the period amounting US\$ 19.2 million. The loss for the period is due to fair value adjustments of the company's yielding assets which result from the increase in the Cap Rates according which transactions are being performed in the real estate market in Israel and over the world, these adjustments have no influence on the company's cash flow.

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				
	Total Annual	Quarter 10-12/08	Quarter 7-9/08	Quarter 4-6/08	Quarter 1-3/08
Revenues from rental fees, management fees, and other	205,716	49,887	50,567	51,756	53,506
Adjustment of fair value and results of disposal of yielding properties and others, net	(37,762)	(34,705)	(4,143)	(569)	1,655
Company's share in earnings (losses) of affiliates, net	(6,943)	(9,357)	55	1,228	1,131
Total revenues	161,011	5,825	46,479	52,415	56,292
Operating expenses and maintenance fees	61,790	15,478	15,309	15,275	15,728
General and administrative expenses	7,837	426	2,944	2,173	2,294
Financing expenses, net	108,143	24,127	22,036	32,890	29,090
Financing income in respect of revaluation of index-linked options	(3,266)	(394)	(453)	(954)	(1,465)
Total costs and expenses	174,504	39,637	39,836	49,384	45,647
Pre-tax income (loss)	(13,493)	33,812	6,643	3,031	10,645
Tax Expenses (Benefit)	5,785	2,132	3,202	(661)	1,112
Net income (loss)	(19,278)	(35,944)	3,441	3,692	9,533
Attributed to:					
The Company's shareholders	(19,173)	(35,827)	3,495	3,698	9,461
Minority interests	(105)	(117)	(54)	(6)	72
Net income (loss)	(19,278)	35,944	3,441	3,692	9,533

Revenues

Total revenues of the Company in the year ended in 2008 (hereinafter, "the reporting period") amounted to \$161 million, compared with \$263 million in the corresponding period last year.

The company's revenues includes two main sources:

- Revenues from rent, management fees and others - In the reporting period amounted to US\$ 206 million, compared with US\$ 188 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, during 2007. The increase in those revenues partly compensated by the decrease in the exchange rates of the currencies compared with the Shekel. Most of the company's revenues is due to assets abroad which their income stated in foreign currency and being translated to the shekel according to acceptable accounting roles (according to exchange rates average in every report period). The decrease in the exchange rates (see average rate table aforementioned) reduced the company's revenues.

- Revenues from adjustment of fair value and results of disposal of yielding properties and others net - In the reporting period amounted to US\$ 38 million, compared with US\$ 70 million in the corresponding period last year. In 2008 the company recorded a loss from adjustment of fair value and results of disposal of properties which result from an increase in the Cap Rates in the countries the company operates in, which cause a reduction in the real estate value. Those fair value adjustment have no influence on the company's cash flow from operating activities and on its operating activities.

Financing expenses, net

In the reporting period, financing expenses (including revaluation of index-linked options) totaled US\$ 105 million, compared with US\$ 99 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 (known CPI) of 4.5% during the period compared with 2.8% in the corresponding period last year which impacted the index-linked liabilities in Israel.

The financing expenses in the report period include US\$ 87 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.

In addition, during the period, financial income amounting to NIS 56 million (approximately US\$ 14.7 million) was included as a result the purchase of a loan and the Company's bonds – for further details, see Chapter A above.

Net income (loss)

The loss of the Company in the reporting period amounted to \$19.3 million, compared with net income of \$72.6 million in the corresponding period last year.

The loss in 2008 is primarily attributable to the fact that during the period, the Company recorded loss on the adjustment of the fair value of rental and other property, net, amounting to US\$ 37.8 million, while in the corresponding quarter last year , the Company included income from this item totalling US\$ 70.1 million.

Cash flows

Cash flows used in operating activities

During the reporting period operating activities provided the Company with cash flows totalling US\$ 24.3 million, as compared with US\$ 27.7 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 US\$ 50.4 million – for further details, see the company's period report for 2008 paragraph 8.3.2.5.

Forecast cash flows for financing the repayment of the Company's liabilities

The Group has a deficiency on working capital as of the balance sheet date totalling \$ 134 million. The Company has prepared for the repayment of its current liabilities in the following manner:

A. Bonds

- As of the balance sheet date, the Company has a liability to bondholders in an aggregate total of \$ 112 million. This amount is after bonds reduction which purchased by the company as follows.
- On August 18, 2008, the Company repaid from out of its own resources (cash and a credit line) a total of \$ 16 million, representing its entire liabilities to Series A bondholders for 2008.
- During the forth quarter of the year, the Company made a purchase of its own bonds for \$ 10.3 million, thereby reducing its liabilities vis-à-vis the bondholders by \$ 15.5 million.
- Out of the abovementioned liabilities to bondholders, as of the date of the publication of the report, a total of \$ 17.6 million is for repayment between August and October 2009, and a total of \$ 19.2 million is for repayment in 2010.

B. Liabilities to financial institutions in Israel

- During the forth quarter of the year, the Company concluded agreements with a number of financial institutions in Israel relating to the conversion of short-term debts amounted to \$ 70 million, whose repayment is due between July and August 2009, to long-term debts due to 2010-2014. As of the balance sheet date these amounts classified in the balance sheet as non-current liabilities.
- After the balance sheet date, the Company concluded an agreement with a financial institution in Israel relating to the extension of the repayment date of debts totalling NIS 137 million (\$ 36 million) due to January 2010. As of the balance sheet date these amounts classified as current liabilities.

C. Liabilities to foreign financial institutions

- The Company has liabilities to foreign financial institutions, the balance of which as of the balance sheet date, amount to \$ 1,558 million. These liabilities are non-recourse loans (without the right of recourse to the Company). Repayment of the principal in respect of these loans is due between 2009 and 2035.
- During the forth quarter of the year, the Company paid by way of refinancing a debt to foreign financial institutions in Canada totalling Can\$ 11 million (approximately \$ 8.7 million), through the receipt of a long-term loan of Can\$ 11 million (approximately \$ 9.2 million) that as of the balance sheet date classified as non-current liabilities.
- In 2009, the Company is expected to repay long-term debts (3 loans) to foreign financial institutions in Canada totalling Can\$ 50 million (approximately \$ 41.3 million). The fair value of the assets, which, for the purpose of the financing, these loans were taken into account, correct as of the date of the report, is Can\$ 81 million (approximately \$ 65.8 million). The Company believes that these loans will be repaid by way of refinancing. As of the balance sheet date these loans classified as current liabilities.

D. Sale of assets

- During the first quarter of 2009, the company signed a principles document to sale her rights in three assets in Israel. The expected cash flow from the sale to the company before tax, after deducting loans and liabilities due to the assets, is \$ 44.2 million.
- The Company intends to sell a number of properties in 2009 and 2010, both abroad and in Israel, the sale proceeds of which, net of the loans which were taken for their purchase, will lead to an increase in the Company's cash balance and will improve the Company's working capital.

E. Unexploited credit line

- As of the balance sheet date, the company has short-term credit lines that not yet used totaling \$ 58.4 million.

F. Current cash flow

- In 2008 The Company has cash flows from operating activities totaling \$ 24.3 million (hereinafter - "current cash flow").

In noting the range of possible sources at the Company's disposal, the Board of Directors of the Company believes that, as of the approval date of the financial statements, the Company has adequate financial resources for repaying the current liabilities.

Even so, as of the date of this report, the Board of Directors assesses that the Company has adequate financial sources to repay its current liabilities, this assessment and the Company's assessment, in relation to the forecasted cash flows, for the refinancing of loans, for the sale of the assets and the current cash flow for the fourth quarter of 2008 is prospective information, which is based on the Company's assumptions and various assessments that it has made, and on the basis of the data at its disposal as of the date of this report. However, this information may not materialize or may turn out differently from that expected, since the Company is subject to external influences that cannot be estimated in advance and is not under its control, including the risk factors characterizing the Company's activity, the worsening of the econ crisis, changes in currency exchange rates, the tightening of the conditions for raising external sources of finance and a deterioration in the trade and economic conditions for the realization of business opportunities for the purchase and sale of real estate assets, etc.

D. Events during the report period

1. 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 US\$ 6.7 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").
2. On August 18, 2008, the Board of Directors approved a resolution to distribute a cash dividend of NIS 0.75 (approximately US\$ 0.2) gross per share. The determining date is August 31, 2008 and the payment date is September 14, 2008. On September 14 an amount of US\$ 5.2 million was paid as dividend.
3. Further to the announcement of the company's controlling shareholder, Electra Ltd (hereinafter: "Electra") on February 13, 2007 with regard to the examination of the process of structural change of the company through a split and merger, the Audit Committee and the Board of Directors of the Company approved On September 24, 2008, a change in the holding structure in the Company, whereby the "side" of the activity of the Company and a rental property belonging to the parent company, Electra, will be transferred, such that if the process is completed, the Company will be converted from a consolidated subsidiary of Electra to its fellow subsidiary, below ("split and merger arrangement"). On September 28, 2008, a request was submitted in the courts for the approval of the arrangement pursuant to Sections 350 and 351 of the Corporate Law, 1999, (hereinafter - "the request"). On October 6, 2008, a decision of the court was handed down in the case of the request for the arrangement (Bankruptcy case 2557/08), whereby approval was given to the convening of the meetings, the calling of which within the framework of the request was requested. On December 30 2008, after the approval of the Audit Committee and the Board of Directors of the Company, a request was submitted in the courts to change the set date, split date and balance sheet set date from September 30 2008 to December 31 2008. On January 1 2009 the court approved this request.

The execution of the split arrangement is subject to the approvals required under the law, and inter alia, the approvals of the tax authorities, the Israel Securities Authority and Tel Aviv Stock Exchange Ltd., as well as the approval of the court and meetings of Company's creditors and holders of securities, as will be required.

It should be noted that it is possible that the outline of a structural change will differ from that described above, or that it will not be executed at all, for further details see chapter A above.

4. During October and November 2008 the company purchased its own debentures, For additional details see chapter A. aforementioned.

E. Events after the balance period

In the period between the balance sheet date (December 31, 2008) and the publication date of the financial statements for the year of 2008 (March 25, 2009), 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 December 31, 2008 and March 22, 2009)

Currency	Rate's Change (in %):
US Dollar	+ 5.8%
Euro	+ 3.9%
Pound Sterling	+ 5.6%
Swiss Franc	+ 0.8%
Canadian Dollar	+ 4.8%

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 + 4%. 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 (March 31, 2009).

F. Senior officers Remuneration

The company estimates the remuneration to all three senior officers (CFO and Two CEO) as detailed in regulation number 21 "Extra details report of the corporation" which comprise inseparable part of the annual report for 2008, as a fair and reasonable reward, particularly due to the fact that a material part of the remuneration is derived from the company's performance and due to it being paid through a bonus calculated on results basis (income before tax). Each of the senior officers noted in regulation number 21 is a material officer in the company and belong to the company's senior management, therefore, the company believe that it is right to link between the company's performance and the officers remuneration. Despite that the Audit Committee and the Board of Directors of the Company approved a special remuneration to the CFO and the Two CEOs of the company.

The director remuneration executed according to the max border respectively to the company's ranking.

G. 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 risks:

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, 2008. 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, 2008.

H. Accounting estimates

General

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates and assumptions in respect of transactions or matters whose ultimate effect on the financial statements cannot be determined precisely when preparing the financial statements. Although made on the basis of discretion and judgment, these estimates could differ from actual results.

Changes in fair value of yield assets

Determination of the fair value of yielding assets in accordance with IAS 40, according to which real estate is presented at fair value, is carried out by independent real estate experts who established fair value based on market value. Market value equals the fair value replaced at the time of the valuation that takes place at arm's length between unrelated parties. The determination of fair value takes into account, among other things, the property's location and condition as well as tenant quality and leasing periods, with any changes therein allocated to operations and hence possibly affecting the Company's results materially.

I. Directors possessing accounting and financial skills

The number of directors possessing accounting and financial expertise has been determined as one.

The following directors are considered to possess accounting and financial expertise:

1. Prof. Israel Zeng:

Third degree holder in Operations Research of the Technion. Serves and served as a director in several public companies. Vice-President for Academic Affairs and Head of School of Management – Economics, Academic College of Tel-Aviv – Jaffa. Professor (retired) of School of Management, Tel-Aviv University, member of the faculty since 1975. He has published articles in the areas of economics and operations research for the past 30 years and is currently serving as the academic director of the Kellogg Recanati's Executive MBA program. Served as rector vice in Tel-Aviv University, as dean of the management faculty in Tel-Aviv University, as president of the Operations Research association. In addition, Prof. Zeng served as a member of the management committee and finance committee of university of Tel-Aviv.

2. Prof. Ben Ami Zukerman:

Third degree holder in business administration. Served as a chairman and director of several public companies. Professor (retired) of School of Business. Previously served as lecturer at Tel Aviv University's MBA school and the Hebrew University's law school in the areas of finance and the capital market and has written many publications on related matters.

Wrote many publication in Israel and abroad in several topics such as: finance, capital market, taxation, insurance and accountancy. Served as: chairman of the board of Mivtachim Pension Plan, CEO of the company ha'ovdim, in charge of the capital market, insurance and savings at the Ministry of Finance, member of the Security Authority, director of the Tel Aviv Stock Exchange as well as chairman and board member in several public companies.

J. Independent Directors

The company didn't adopt in her set of rules any instruction relating independent directors proportion (as defined in paragraph 219 to the corporate law, 1999).

K. Disclosure concerning the Company's Internal Auditor

1. Details of the Internal Auditor

- The main internal auditor in the Company is Mr. Hillel Lavi, who has served in this capacity since November, 2005.
- The Internal Auditor complies with the provisions of Section 146(b) of the Companies Law and the provisions of Section 8 of the Internal Audit Law.
- As of the date of the report, the Internal Auditor does not hold any securities of the audited company or of any entity related thereto.
- The Internal Auditor has no material business connections or other material connections with the Company, which could create a conflict of interests with his function as an internal auditor.
- The Internal Auditor serves as internal auditor of the company – Elco Holdings Ltd. and of its subsidiaries in the Group, including, in the Company and its subsidiaries.

2. Method of appointment

Mr. Hillel Lavi was appointed Internal Auditor of the Company pursuant to a resolution of the Company's board of directors on November 15, 2005. The appointment was approved against a backdrop of a decision to appoint an auditor in the parent company (Elco Holdings Ltd.).

3. Identity of the supervisor of the Internal Auditor

The Company supervisor of the Internal Auditor is the Chairman of the Board of Directors.

4. Business plan

- The work plan is for two years. The work plan of the internal audit department of the Company and the subsidiaries is determined, inter alia, according to the following considerations: covering the Company's main areas of operations, points of risk and exposure known to the auditor and the management, the potential for savings and efficiency, the cyclical nature and performance of repeat audits as a follow-up to the correction of weaknesses and the implementation of recommendations. The work plan of the audit department also includes the corporations in which the Company has material holdings.
- The work plan of the audit department is submitted for the review and approval of the audit committee and the Chairman of the Board of Directors of the Company.
- The Internal Auditor has discretion to deviate from the work plan as necessary.
- The process of approving material transactions is being examined.

5. Overseas audit and/or of investee companies

- The audit program also relates to material corporations held by the Company. The audit is carried out by the Internal Auditor and a team of officials that are subject to him professionally and guided by him.
- Audit work of material overseas investees is carried out by the Internal Auditor and a team of officials that are subject to him.

6. The extent of the position

The extent of the annual audit, executed by external service providers and by chief auditor of the Elco Group, estimated as partial position, is as follows:

Estimate of the extent of the work in hours			
	In the entity	In entities held by the entity	Total
Activities in Israel	260	-	260
Overseas activities	-	130	130
Total	260	130	390

The scope of the internal audit decreased compared with last year. Since the audit work plan is for a period of two years, the extent of the actual annual audit hours varies from year to year.

7. Conducting the audit

- The Internal Auditor conducts his audit in conformity with generally accepted professional standards as stated in Section 4(b) of the Internal Audit Law, 1992 and professional directives approved and published by the Institute of Internal Auditors in Israel, and as stated in the Companies Law.
- In the opinion of the Company's Board of Directors, the Internal Auditor complies with the requirements prescribed in the professional standards.

8. Access to data

The Internal Auditor should have free, constant and unhindered access to documents and information owned by the Company, companies under its control including data systems and financial information, as stated in Section 9 of the Internal Audit Law.

9. Internal Auditors report

- The Internal auditor submits reports on his findings in writing on a regular basis from time to time and in accordance with the audit issues dealt with during the year. Accordingly, discussions are held regarding his findings in the respective companies. During 2008, two meetings were held, on February 28, 2008 and on August 24, 2008.
- The audit reports are submitted, inter alia, to the Chairman of the Board of Directors, Chairman of the Audit Committee, members of the Audit Committee and the Company's Chief Executive Officer.

10. Assessment of the Board of Directors of the activity of the Internal Auditor

In the opinion of the Audit Committee and the Board of Directors of the Company, the scope, nature and continuity of the activity and the work plan of the Internal Auditor are reasonable in the circumstances and are appropriate for realizing the internal audit objectives in the Company.

11. Remuneration

- The Internal Auditor is a salaried employee of the parent company, Elco Holdings Ltd.
- In the opinion of the Board of Directors, the remuneration of the Internal auditor does not constitute a factor influencing his professional discretion.

L. Disclosure concerning the independent auditors' fee

The fee of the independent auditors of the Company and its material subsidiaries:

Company	Firm	2008		2007			
		Fee (*) in thousands \$		Work hours	Fee (*) in thousands \$		Work hours
		Audit, tax and related services	Other services	Audit, tax and related services	Audit, tax and related services	Other services	Audit, tax and related services
Electra real Estate Ltd. & Electech Real Estate INC	Brightman Almagor Zohar & Co.	184	29	4,850	193	-	6,185
Companies hold the German Partnerships	Autocan Audit	203	-	2,700	200	-	2,463
Companies in Holland	Staathof B.V	114	-	650	68	-	375
Entities in Canada	KPMG	91	26	665	226	84	2,100

(*) The fee of the independent auditors of the Company determined in a negotiations between the company's management and the independent auditors and the company believe it is reasonable and acceptable according to the company's nature and scope of operations. The fee approved by the company's management.

M. Disclosure concerning agreement to perform practice review

(Guidance of the Securities Authority paragraph 36 a (b) of the Securities Regulations, 1968).

Continuance to the Securities Authority's guidance from July 28 2005, compelling public companies to disclose concerning agreement to perform "practice review", which supposed, as mentioned in the guidance, to start a process of checking the independent auditors' work of the public companies, on March 29, 2006 the company's board of directors approved the grant of the required agreement to perform a review, according to a draft that will be confirmed by the company's CFO.

N. 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.

O. Contributions

In 2008, the Company in Israel donated a total of \$57 thousand. The donations are intended for non-profit organizations.

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

Shlomo Sherf
CEO

Gershon Salkind
Chairman of the Board of Directors

March 25, 2009

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
ELECTRA REAL ESTATE LTD.**

We have audited the consolidated balance sheets of **Electra Real Estate Ltd.** ("the Company") and subsidiaries as of December 31, 2008 and 2007, and the related statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2008, and have issued our unqualified report thereon dated March 25, 2009. These financial statements are the responsibility of the company's board of directors and of its management. Our responsibility is to express an opinion on these financial statements based on our audit.

As noted in our above-mentioned independent auditors' report, we have not audited the financial statements of consolidated subsidiaries, whose assets, at December 31, 2008, constitute approximately 87% of total consolidated assets at that date (2007 - 82%), and whose revenues, for the three years ended December 31, 2008, 2007 and 2006 constitute approximately 88%, 81% and 76%, respectively, of the total consolidated revenues for the years then ended. Moreover, we did not audit the financial statements of affiliates, in which the Company's investment at December 31, 2008 and 2007 amounted to \$104 million and \$88 million, respectively, and the Company's share in their results for the three years ended December 31, 2008 amounted to \$6.4 million, \$0.4 million, and \$19.7 million, respectively. The financial statements of those companies were audited by other auditors whose reports were furnished to us and our opinion, insofar as it relates to amounts included in respect of those companies, was based on the reports of the other auditors.

Our unqualified report related to the fair presentation, in all material respects, of the consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) and also to presentation in accordance with the Israeli Securities Regulations.

As described in Note 2.A. herein, the accompanying English-language condensed consolidated financial statements in US dollars ("dollars") represent a translation of the above-mentioned NIS financial statements into dollars in condensed form solely for the convenience of the reader ("convenience translation") using the representative dollar exchange rate in effect on December 31, 2008. Comparative amounts for 2007 and 2006 represent a translation of the NIS values of the respective year, using the representative dollar exchange rate in effect on December 31, 2008.

The accompanying financial statements represent a translation into English (from the original Hebrew version) and do not include the notes to the consolidated financial statements.

In our opinion, the convenience translation in condensed form referred to above has been made in accordance with the basis described in Note 2.A.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel-Aviv, March 25, 2009

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

December 31,	
2008	2007
In thousands	

ASSETS

Current assets

Cash and cash equivalents	74,613	123,972
Short-term deposits	13,963	15,582
Marketable securities	2,966	3,088
Trade accounts receivable	4,661	8,200
Current tax assets	925	951
Receivables and other current assets	6,346	10,727
Yielding property intended for disposal	-	6,648
	103,474	169,168

Non current assets

Investments in affiliates	172,114	183,337
Loans and long-term receivables	23,194	28,059
Fixed assets	282	441
Inventory of land	24,984	15,543
Other financial investment	38,487	85,088
Deferred income taxes	1,891	402
	260,952	312,870

Yielding assets in -

Europe	1,403,716	1,523,921
North America	539,660	641,433
Israel	192,196	165,573
Britain	36,782	221,838
	2,172,354	2,552,765

Total Assets	2,536,780	3,034,803
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The accompanying notes are an integral part of the financial statements

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

December 31,	
2008	2007
In thousands	

LIABILITIES AND EQUITY

Current liabilities

Bank borrowings (including current maturities)	172,011	139,421
Current tax liabilities	3,954	1,661
Trade accounts payable	3,054	3,169
Payables and other current liabilities	58,757	(*) 72,158
	237,776	216,409

Non current liabilities

Debentures	94,725	122,634
Long-term loans to finance development projects	16,497	14,393
Liabilities in respect of index-linked options	33	3,299
Loans from Electra Group companies	20,540	29,297
Loans from shareholders in subsidiaries	2,656	3,107
Loan from company displayed as financial investement	-	5,309
Employee benefit liability, net	720	567
Other long-term liabilities	30,382	(*) 25,363
Deferred income taxes	79,445	86,054
	244,998	290,023

Loans for financing investments and yielding assets:

Europe	1,229,271	1,344,516
North America	419,110	(*) 507,058
Israel	46,651	35,055
Britain	42,221	219,725
	1,737,253	2,106,354

Equity

Ordinary Share Capital 0.0001 NIS Net Value	1	1
Share premium	134,964	134,964
Capital reserves	(59,797)	19,450
Retained earnings	236,171	260,525
Equity attributable to the Company's shareholders	311,339	414,940
Minority interests	5,414	7,077
Total equity	316,753	422,017

Total Liabilities and Equity

2,536,780	3,034,803
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(*) Reclassified.

March 25, 2009

Approval date of the financial statements

**Zvi Duskin
CFO**

**Shlomo Sherf
CEO**

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

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

**ELECTRA REAL ESTATE LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

Year ended December 31,

2008	2007	2006
In thousands		

Revenues

Rental fees, management fees and others	205,716	187,679	79,627
Adjustment of fair value, results of disposal of yielding properties and others, net	(37,762)	70,118	59,312
Company's share in results of affiliates, net	(6,943)	5,432	36,210
Total revenues	161,011	263,229	175,149

Costs and Expenses

Operating expenses and maintenance fees	61,790	58,466	28,330
General and administrative expenses	7,837	11,968	10,983
Financing expenses	124,953	102,272	32,713
Financing income	(16,810)	(3,763)	(2,415)
Revaluation of liabilities in respect of index-linked options	(3,266)	842	9,760
Total costs and expenses	174,504	169,785	79,371

Pre-tax income (loss)

	(13,493)	93,444	95,778
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Tax Expenses

	5,785	20,816	19,957
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Net income (loss) for the period

	(19,278)	72,628	75,821
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Attributable to:

The Company's shareholders	(19,173)	72,127	74,598
Minority interest	(105)	501	1,223
Net income (loss) for the period	(19,278)	72,628	75,821

Earnings (Loss) per share (in dollars)

attributed to the Company's shareholders:

Basic	(0.73)	2.81	3.13
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Diluted	(0.73)	2.77	3.06
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Weighted average number of ordinary shares used in the calculation of earnings (loss) per share (in thousands):

Basic	6,908	6,745	6,274
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Diluted	6,908	6,923	6,415
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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**

	<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> (In thousands)	<u>Retained earnings</u>	<u>Total shareholder equity</u>	<u>Minority Interests</u>	<u>Total equity</u>
Balance - January 1, 2008	1	134,964	813	1,175	17,462	260,525	414,940	7,077	422,017
Adjustments on the translation of financial statements of overseas activities, net	-	-	(35,026)	-	-	-	(35,026)	(1,558)	(36,584)
Revaluation of available for sale assets	-	-	-	-	(43,072)	-	(43,072)	-	(43,072)
Revaluation of cash flow hedges	-	-	-	-	(1,375)	-	(1,375)	-	(1,375)
Total loss recognized directly in equity	-	-	(35,026)	-	(44,447)	-	(79,473)	(1,558)	(81,031)
Loss for the year	-	-	-	-	-	(19,173)	(19,173)	(105)	(19,278)
Total loss for the year	-	-	(35,026)	-	(44,447)	(19,173)	(98,646)	(1,663)	(100,309)
Dividend paid to minority	-	-	-	-	-	(5,181)	(5,181)	-	(5,181)
Share-based payment	-	-	-	226	-	-	226	-	226
Balance – December 31, 2008	<u>1</u>	<u>134,964</u>	<u>(34,213)</u>	<u>1,401</u>	<u>(26,985)</u>	<u>236,171</u>	<u>311,339</u>	<u>5,414</u>	<u>316,753</u>

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

**ELECTRA REAL ESTATE LTD.
STATEMENT OF CHANGES IN EQUITY
CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	<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> (In thousands)	<u>Retained earnings</u>	<u>Total shareholder sequity</u>	<u>Minority Interests</u>	<u>Total equity</u>
Balance - January 1, 2007	1	110,511	2,103	734	8,555	188,398	310,302	9,482	319,784
Adjustments on the translation of financial statements of overseas activities, net	-	-	(1,290)	-	-	-	(1,290)	976	(314)
Revaluation of available for sale assets	-	-	-	-	7,396	-	7,396	-	7,396
Revaluation of cash flow hedges	-	-	-	-	1,511	-	1,511	-	1,511
Total net income (loss) recognized directly in equity	-	-	(1,290)	-	8,907	-	7,617	976	8,593
Net income for the year	-	-	-	-	-	72,127	72,127	501	72,628
Total income (loss) for the year	-	-	(1,290)	-	8,907	72,127	79,744	1,477	81,221
Exercise of options	(*)	24,453	-	-	-	-	24,453	-	24,453
Share-based payment	-	-	-	441	-	-	441	-	441
Dividend paid to minority	-	-	-	-	-	-	-	(3,882)	(3,882)
Balance – December 31, 2007	<u>1</u>	<u>134,964</u>	<u>813</u>	<u>1,175</u>	<u>17,462</u>	<u>260,525</u>	<u>414,940</u>	<u>7,077</u>	<u>422,017</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**

	<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> (In thousands)	<u>Retained earnings</u>	<u>Total shareholder sequity</u>	<u>Minority Interests</u>	<u>Total equity</u>
Balance - January 1, 2006	1	84,056	9,623	200	-	113,800	207,680	9,289	216,969
Adjustments on the translation of financial statements of overseas activities, net	-	-	(7,520)	-	-	-	(7,520)	(229)	(7,749)
Revaluation of available for sale assets	-	-	-	-	9,541	-	9,541	-	9,541
Loss from cash flow hedges	-	-	-	-	(986)	-	(986)	-	(986)
Total net income (loss) recognized directly in equity	-	-	(7,520)	-	8,555	-	1,035	(229)	806
Net income for the period	-	-	-	-	-	74,598	74,598	1,223	75,821
Total net income (loss) for the year	-	-	(7,520)	-	8,555	74,598	75,633	994	76,627
Exercise of options	(*)	26,455	-	-	-	-	26,455	-	26,455
Share-based payment	-	-	-	534	-	-	534	-	534
Dividend paid to minority	-	-	-	-	-	-	-	(801)	(801)
Balance – December 31, 2006	<u>1</u>	<u>110,511</u>	<u>2,103</u>	<u>734</u>	<u>8,555</u>	<u>188,398</u>	<u>310,302</u>	<u>9,482</u>	<u>319,784</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

	Year ended December 31,		
	2008	2007	2006
	<u>In thousands</u>		
Cash Flow - Operating Activities:			
Net income (loss)	(19,278)	72,628	75,821
Adjustments required to present cash flows from operating activities (Appendix A)	43,594	(44,921)	(59,296)
Net cash provided by operating activities	<u>24,316</u>	<u>27,707</u>	<u>16,525</u>
Cash Flows - Investing Activities:			
Proceeds from the sale (invest) of marketable securities, net	(15)	8,987	15,923
Collection (Giving) of Long-term loans	15	649	(3,022)
Proceeds from the sale of investees that were proportionately consolidated (consolidation exit) (Appendix B)	(2,141)	24,615	7,161
Realization of short-term deposits	6	3,723	(9,302)
Change in long-term deposit, net	(2,716)	26,462	(18,600)
Investments in shares of affiliates and other	(11,215)	(81,233)	(17,036)
Initial full consolidation of a company that was proportionally consolidated (Appendix C)	-	-	(2,596)
Initial consolidation of an affiliate (Appendix D)	(2,860)	-	(5,545)
Initial full consolidation of a subsidiary (Appendix E)	-	(48,873)	(18,637)
Acquisition and construction of yielding assets	(56,109)	(1,255,064)	(267,199)
Acquisition of fixed assets and other assets	(147)	(8)	(1,499)
Proceeds from disposition of yielding properties	50,394	70,001	8,291
Net cash used in investing activities	<u>(24,788)</u>	<u>(1,250,741)</u>	<u>(312,061)</u>
Cash Flows - Financing Activities:			
Issuance of bonds and options to bonds, net of issuance expenses	-	-	43,960
Dividend paid to minority shareholders in a subsidiary	-	(3,882)	(801)
Dividend paid	(5,181)	-	-
Issuance of shares, net of issuance expenses	-	14,977	24,439
Receipt of long-term loans	81,357	1,316,855	254,605
Repayment of long-term loans	(64,714)	(57,366)	(6,647)
Repayment of bonds	(16,061)	-	-
Prepayment of bonds and long-term liabilities	(23,037)	-	-
Repayment of loans and capital notes from the Electra Group companies, net	(4,360)	-	(1,587)
Receipt (Repayment) of loans and capital notes from minority shareholders in consolidated subsidiaries, net	(181)	(1,177)	291
Receipt (Repayment) of loan from affiliate companies	-	(23,623)	27,998
Short-term bank borrowings, net	(11,077)	35,129	1,050
Net cash provided by financing activities	<u>(43,254)</u>	<u>1,280,913</u>	<u>343,308</u>
Increase (Decrease) in cash and cash equivalents	<u>(43,726)</u>	<u>57,879</u>	<u>47,772</u>
Cash and cash equivalents at beginning of period	<u>123,972</u>	<u>65,541</u>	<u>17,839</u>
Translation differences relating to cash balances in foreign currency	<u>(5,633)</u>	<u>552</u>	<u>(70)</u>
Cash and cash equivalents at end of period	<u><u>74,613</u></u>	<u><u>123,972</u></u>	<u><u>65,541</u></u>

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

**ELECTRA REAL ESTATE LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO THOUSANDS OF U.S. DOLLARS**

	Year ended December 31,		
	2008	2007	2006
	In thousands		

Appendix A - Adjustments required to present cash flows from operating activities:

Expenses (income) not involving cash flows:

Company's share in results of affiliates, net	3,847	(3,329)	(36,210)
Gain from prepayment of bonds and long-term liabilities	(14,722)	-	-
Depreciation and amortization	305	66	716
Adjustment of fair value and results of disposal of yielding properties, net	37,762	(70,118)	(59,312)
Loss (Gain) from marketable securities	137	(541)	(1,162)
Recording of expenses in connection with share based payments	226	441	534
Revaluation of liabilities in respect of index-linked options	(3,266)	842	9,760

Changes in assets and liabilities:

Change in value of long-term receivables and liabilities, net (including interest charged to the parent company)	11,049	5,042	(3,214)
Deferred income taxes, net	3,046	18,686	18,637
Trade accounts receivables	585	(6,183)	(934)
Receivables and other current assets	1,452	(1,777)	367
Trade accounts payables	202	(859)	1,077
Payables and other current liabilities	2,971	12,809	10,445
	<u>43,594</u>	<u>(44,921)</u>	<u>(59,296)</u>

Appendix B - Proceeds from the sale of investees that were full and proportionately consolidated

Net assets and liabilities at acquisition:

Net working capital (excluding cash)	245	1,240	(1,181)
Long-term receivables	6,129	1,703	22
Yielding assets, net	103,140	70,073	26,292
Long-term liabilities	(114,576)	(46,751)	(17,890)
Gain (loss) from investment realization	2,921	(1,650)	(82)
	<u>(2,141)</u>	<u>24,615</u>	<u>7,161</u>

Appendix C - Initial full consolidation of a company that was proportionally consolidated

Net working capital (excluding cash)	-	-	183
Fixed assets and other assets	-	-	(719)
Long-term receivables	-	-	(20,397)
Yielding assets, net	-	-	(2,060)
Long-term liabilities	-	-	20,397
	<u>-</u>	<u>-</u>	<u>(2,596)</u>

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**

Year ended December 31,

	2008	2007	2006
	In thousands		

Appendix D - Initial consolidation of an affiliate

Net working capital (excluding cash)	10,103	9,235	558
Fixed assets and other assets	-	-	(2,247)
Long-term receivables	(1,165)	-	-
Yielding assets, net	(15,426)	(30,915)	(33,879)
Investment in affiliates	2,662	12,660	8,261
Long-term liabilities	966	9,020	21,762
	(2,860)	-	(5,545)

Appendix E - Initial consolidation of a subsidiary

Net working capital (excluding cash)	-	2,465	879
Yielding assets, net	-	(296,975)	(140,365)
Long-term liabilities	-	245,637	120,849
	-	(48,873)	(18,637)

Appendix F – Additional cash flow information

Cash paid during the year:

Interest	118,503	65,954	26,522
Income taxes	774	3,112	127
	119,277	69,066	26,649

Cash received during the year:

Interest	2,283	1,367	752
Income taxes	44	-	547
	2,327	1,367	1,299

Appendix G – Non-cash transactions

Purchase of yielding property on credit	1,721	15,494	13,207
Conversion of liability for index-linked options to capital	-	9,537	2,016

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - General

- A.** Electra Real Estate Ltd. (hereinafter – "the Company") was founded on May 15, 1972 and is a subsidiary under the ownership and control of Electra Ltd. (hereinafter – "the parent company", or "Electra"). In August 2005, the Company became a public company whose securities are traded on the Tel Aviv Stock Exchange.

The Company is engaged (both directly and through investee companies) in the purchase, leasing, and sale of rental properties in Israel and abroad and in the initiation and establishment of projects in the field of real estate in Israel and abroad.

B. Company's compliance with financing the deficit in working capital

As of the balance sheet date, the Company had a deficit on working capital amounting to NIS 511 million (approximately US\$ 134.4 million). A description of the main measures being taken by the Company in order to repay the deficit in working capital is as follows:

a. Liabilities to financial institutions in Israel

- After the balance sheet date the company has come to an agreement with several financial institutes in Israel about extending repayments dates for debts amounting NIS 137 million (approximately US\$ 36 million) to January 2010. This debt was classified in the report period as a short-term liability.
- During the fourth quarter of the year, the company has come to an agreement with several financial institutes in Israel about converting short term liabilities amounting to US\$ 70 million, into long term liabilities, to be repaid during the years 2010-2014. As of December 31, 2008, the amounts are classified in the balance sheet of the company as long term liabilities.

b. Disposal of assets

- During the first quarter of 2009, the company has signed a principle agreement in respect of selling its rights in 3 of the assets owned by the company in Israel. The cash flow that is predicted to derive to the company, before taxes and after deduction of the loans and liabilities due to the assets is approximately NIS 168 million, US\$ 44 million.
- the company intends to act in purpose disposal of additional assets during the year 2009, in Israel and abroad. The revenue from the sales, net of the liabilities due to the assets, will increase the cash balances and the working capital of the company.

c. Unutilized short term credit facilities

- As of December 31, 2008, the company has an unutilized short term credit at the amount of NIS 222 million, approximately US\$ 58.4 million.

d. Cash flow from p\operating activities

- The net cash flow derived from operating activities of the company during the year 2008 amounted to NIS 92.4 million, approximately US\$ 24.3 million.

e. Liabilities to foreign financial institutions

- During 2009, the company is anticipated to repay long term loans in Canada, aggregating Can\$ 50.3 million (approximately US\$ 48.4 million) through refinancing. The loans are classified in the balance sheet of the company as short term liabilities

ELECTRA REAL ESTATE LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - General (Cont.)

B. Company's compliance with financing the deficit in working capital (Cont.)

Noting the range of potential sources at its disposal, Company management believes that, as of the approval date of the financial statements, it has sufficient financial resources for repaying its current liabilities.

Note 2 - Reporting principles and accounting policies

- A.** These 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 December 31 ,2008 (\$1.00= NIS 3.802).

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 December, 31 ,2008. Comparative figures for the year ended December 31, 2007 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 December 31 ,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.

- B.** The consolidated financial statements of the Company have been prepared in a condensed format in conformity with International Financial Reporting Standards and their interpretations published by IASB, and in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993, except for the regulations that do not meet the implementation of the IFRS, or what is permitted thereby.
- C.** The consolidated financial statements of the Company have been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993, except for the regulations that do not meet the implementation of the IFRS, or what is permitted thereby.

The company's management examined the reporting and editing standard and decided to display profit and loss components according to the "one-stage" method since to the management opinion this reporting standard suitable to the nature of business of the company, which is an investment and holding company with most of her assets are investments in investees and real estate assets for rent.

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

Note 2 - Reporting principles and accounting policies (Cont.)

D. Details on the exchange rates are provided below:

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

	December 31,	
	2008	2007
Actual CPI (1993 basis)	198.42	191.15
Known CPI (1993 basis)	198.61	190.03
 <u>In NIS:</u>		
US Dollar	3.80	3.85
Pound Sterling	5.55	7.71
Canadian Dollar	3.11	3.92
Euro	5.30	5.66
Swiss Franc	3.56	3.42
	Year ended December 31,	
	2008	2007
 Change in exchange rate during the period then ended (in %):		
Actual CPI	3.80	3.40
Known CPI	4.51	2.80
US Dollar	(1.14)	(8.97)
Pound Sterling	(28.04)	(6.96)
Canadian dollar	(20.60)	7.74
Euro	(6.41)	1.70
Swiss Franc	4.23	(1.29)

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

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, the segment's liabilities includes financial liabilities identified to specific assets.

	<u>Israel</u>	<u>Europe</u>	<u>North America</u>	<u>Adjustments</u>	<u>Total</u>
	<u>US\$ in thousands</u>				
As of December 31, 2008					
Assets value according to geographical location	<u>285,996</u>	<u>1,521,445</u>	<u>672,293</u>	<u>(*) 57,046</u>	<u>2,536,780</u>
Investment in affiliate according to geographical location	<u>-</u>	<u>14,540</u>	<u>102,420</u>	<u>(*) 55,154</u>	<u>172,114</u>
Liabilities according to assets' geographical location	<u>484,685</u>	<u>1,229,520</u>	<u>426,377</u>	<u>79,445</u>	<u>2,220,027</u>
Year ended December 31, 2008					
Revenues	<u>8,783</u>	<u>87,714</u>	<u>64,514</u>	<u>-</u>	<u>161,011</u>
Profit (loss) before tax expense	<u>(922)</u>	<u>830</u>	<u>(13,401)</u>	<u>-</u>	<u>(13,493)</u>
Yielding assets acquisition	<u>16,621</u>	<u>12,518</u>	<u>11,899</u>	<u>-</u>	<u>41,038</u>
Other Information					
Adjustment of fair value, results of disposal of yielding properties and others, net	<u>(5,334)</u>	<u>(17,121)</u>	<u>(15,307)</u>	<u>-</u>	<u>(37,762)</u>

(*) Representing mainly investment in india

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

Note 3 - Geographical segments (cont.)

	<u>Israel</u>	<u>Europe</u>	<u>North America</u>	<u>Adjustments</u>	<u>Total</u>
	<u>US\$ in thousands</u>				
As of December 31, 2007					
Assets value according to geographical location	<u>268,893</u>	<u>1,929,711</u>	<u>770,999</u>	<u>(*) 65,200</u>	<u>3,034,803</u>
Investment in affiliate according to geographical location	<u>2,662</u>	<u>19,363</u>	<u>96,513</u>	<u>(*) 64,799</u>	<u>183,337</u>
Liabilities according to assets' geographical location	<u>347,759</u>	<u>1,622,182</u>	<u>556,791</u>	<u>86,054</u>	<u>2,612,786</u>
Year ended December 31, 2007					
Revenues	<u>23,823</u>	<u>130,423</u>	<u>108,983</u>	<u>-</u>	<u>263,229</u>
Profit before tax expense	<u>7,188</u>	<u>58,122</u>	<u>28,134</u>	<u>-</u>	<u>93,444</u>
Yielding assets acquisition	<u>71,994</u>	<u>1,223,893</u>	<u>308,013</u>	<u>-</u>	<u>1,603,900</u>
Other Information					
Adjustment of fair value, results of disposal of yielding properties and others, net	<u>7,904</u>	<u>36,273</u>	<u>25,941</u>	<u>-</u>	<u>70,118</u>

(*) Representing mainly investment in india

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

Note 3 - Geographical segments (cont.)

	<u>Israel</u>	<u>Europe</u>	<u>North America</u>	<u>Adjustments</u>	<u>Total</u>
	<u>US\$ in thousands</u>				
As of December 31, 2006					
Assets value according to geographical location	<u>245,533</u>	<u>665,104</u>	<u>465,805</u>	<u>796</u>	<u>1,377,238</u>
Investment in affiliate according to geographical location	<u>14,607</u>	<u>42,606</u>	<u>90,722</u>	<u>-</u>	<u>147,935</u>
Liabilities according to assets' geographical location	<u>304,333</u>	<u>449,282</u>	<u>244,726</u>	<u>59,114</u>	<u>1,057,455</u>
Year ended December 31, 2006					
Revenues	<u>28,334</u>	<u>76,332</u>	<u>70,483</u>	<u>-</u>	<u>175,149</u>
Profit before tax expense	<u>7,018</u>	<u>63,092</u>	<u>25,668</u>	<u>-</u>	<u>95,778</u>
Yielding assets acquisition	<u>18,480</u>	<u>357,008</u>	<u>96,387</u>	<u>-</u>	<u>471,875</u>
Other Information					
Adjustment of fair value, results of disposal of yielding properties and others, net	<u>3,117</u>	<u>46,381</u>	<u>9,814</u>	<u>-</u>	<u>59,312</u>