

ELECTRA REAL ESTATE LTD.

**UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2006

(CONVENIENCE TRANSLATION INTO U.S. DOLLARS)

ELECTRA REAL ESTATE LTD.

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ELECTRA REAL ESTATE LTD.

REPORT OF THE BOARD OF DIRECTORS AT MARCH 31, 2006 AND FOR THE THREE-MONTH PERIOD THEN ENDED

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") at March 31, 2006 and for the three-month period then ended (henceforth - "the period"). The Company's activities are also carried out through its subsidiaries.

A. The Company and its Business Environment

The Company and its investees ("the Group") operate mainly in the yielding commercial real estate in Israel and abroad, directly or through investees. 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, 60 yielding assets and 9 assets under construction, as follows:

<u>Country</u>	<u>Yielding assets</u>	<u>Nature of asset</u>
Israel	14	Office buildings – 6; office floors-8; assets under construction- 6
Britain	11	Office buildings and 9.9% of 16 hotels
Canada	10	Office buildings – 9; logistic center – 1
USA	5	Office buildings – 4 and a residential building earmarked for conversion and sale.
Germany	18	Office buildings and an asset under construction
Other countries in Europe	2	Logistic centers in France and Hungary and an asset under construction in Poland

Total area and average occupancy rates of yielding assets (including Company's share in assets of affiliates) – 542,000 sq. m. and 92%, respectively.

Activity in Israel

The Company holds six office buildings held at different percentages ranging and eight office floors in different locations in Israel. The assets are leased to various tenants for different periods expiring between 2006 and 2019. In addition, the Company holds six assets under construction.

Foreign activity

Britain

On the balance-sheet date the Company held, through investees abroad, 10 commercial buildings in Britain, leased for periods expiring between 2010 and 2019, held at percentages of 75% and 100%. The annual rental fees from these properties amount to £2.8m (Company's share), with the Company obliged to pay annual leasing fees of £0.4m in respect thereof. An additional building is held by the Company as a minority shareholder (49%) and accounted for by the equity method. It is leased to two tenants for periods expiring in 2015 and 2028.

Canada

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in 8 commercial buildings in Canada that are held at various rates ranging from 70% to 100% in lease contracts for periods which ends between 2006 and 2022. The yielding annual rental fees amounting to C\$28.3m,

net after management and maintenance fees – C\$15.3m. In addition, the company holds two buildings at an ownership rate of 49% and accounted for by the equity method.

In May 2006 a wholly owned and controlled foreign subsidiary of the Company acquired 30% of the rights in a yielding property in Toronto, Canada (following its acquisition – in January 2004 – of 70% of the rights based on a property value of C\$43m) at a cost of C\$21.3m (\$18.4) based on a property value of C\$71m, plus related expenses totaling C\$0.8m (\$0.7m). The 25-storey, 33,600 sq. m. - building is located in Toronto's business district and leased mainly (50%) to the Canadian government (about 50%) in a lease expiring in October 2015 and to the insurance company Zurich (about 30%) in a lease expiring in January 2014.

Following the recent meaningful increase in the property's value, the Company refinanced it by obtaining a 10-year loan of C\$57m (\$49.3m) from a Canadian bank at an annual fixed rate of 5.68%. The non-recourse loan is secured with a first-tier lien on the property and its expected rental revenues

USA

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in two buildings in USA that are held at rates of 72% and 63%, that yield annual rental fees of \$8.3m, net after management and maintenance fees - \$4.4m.

In addition, the company holds three assets through companies that accounted by the equity method. An additional asset is presented as a building under construction which is earmarked for conversion and sale as condo units.

In April 2006 a wholly owned and controlled foreign subsidiary of the Company acquired 40% of the rights in a yielding property in Atlanta, USA, at a cost of \$40m (100%), plus related expenses totaling \$1.4m. The 18-storey 40,500 sq. m. - building, which is designed for historical preservation, is located in Atlanta's business district and includes 625 indoor parking spaces. The building is leased to various tenants for various periods, with the lease of Sun Trust Bank (the main tenant) expiring in December 2010. The present occupancy rate is 78%, with annual gross rental fees amounting to \$6.7m, net of management and maintenance expenses of \$2.9m.

The transaction was financed by a 10-year, non-recourse bank loan of \$30.5m at a fixed interest rate of 6.33% and secured with a first-tier lien on the property and its expected rental revenues.

Germany and Switzerland

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in eleven buildings that are held at rates of 50 and 75 that yield annual rental fees of €6.7m.

Seven additional assets held (40%) by an affiliate and yielding annual rental fees in which the Company's share therein amounts to €9m.

In January 2006 the Company concluded, through a held partnership, a transaction for acquiring 70% of the rights in an office building in Hamburg, Germany. The asset, a six-story office building of totaling 29,200 sq. m plus about 200 indoor parking spaces, was acquired (100%) for a gross amount of €70.3m (\$82.1), plus related expenses totaling €6.5m (\$7.6m). The building is entirely leased to four tenants for various periods expiring between 2011 and 2015. Net annual rental fees (100%) amount to €5.25m (\$6.13m), linked to a mechanism providing an increment of 2% per annum payable at the beginning of the year. All management and maintenance expenses are paid by the tenants. A German financial institution provided a loan of €63.5m (\$74.2m), at an annual interest rate of 5.21% for a period of seven years. The loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

In March 2006 the Company acquired 70% in a project under construction in the city of Halle, Germany, estimated to cost about €14.4m (\$17.6m- 100%) plus an additional €0.5m (\$0.6m). The constructed three-storey, 8,800 sq. m.- building will consist of 400 stores and be fully occupied by Dell Computers on a 10-year lease beginning with the end of the construction work (estimated completion date – October 2006). The annual net rental fees, which amount to €1.21m (\$2.7m – 100%), incorporate a mechanism allowing for an annual increase of 1.8% per annum at the beginning of each year, with all current management and maintenance fees paid by the tenant.

A German financial institution provided of €12.1m (\$14.8m) for financing the entire project at annual interest of 5.2%, repayable in seven years following project completion.

In May 2006 a wholly owned and controlled foreign subsidiary of the Company concluded, through a foreign subsidiary, a transaction for acquiring, in stages, 45% of the rights in eight shopping malls, five of which are located in German cities (Berlin, Munich and Nuremberg) and three in Swiss cities (Zurich, Biel and Lucerne). The area of all eight malls totals 125,000 sq. m.. The transaction is estimated at a cost of €203.4m (\$257m – 100%), plus related expenses of €11.6m (\$14.1m). The eight

shopping malls are fully leased (100%) to Hornbach, a leading company in the DIY (“do it yourself”) domain, for a 15-year period starting with each project completion, with renewal options granted to the tenants. Expected gross rental fees amount to €12.8m (\$15.6m), linked to consumer-price index, with all management and maintenance fees paid by the tenant.

In the first stage the Company concluded the acquisition of rights to three malls (in Germany) at €53.1m (\$64.5m), plus related expenses totaling €4.6m (\$5.5m). The remaining malls, which are under various stages of construction – will be bought and paid with the completion of each mall and the start of rental fees, now estimated between the second half of 2007 and the end of the first half of 2008.

The banking credit line provided is €182.5m (\$214m) for financing the entire transaction at an expected average interest rate of 4.5% per annum. The five-year, non-recourse loan for the first three malls amounted to €48m (\$58.3m) at a fixed annual rate of 5.18%. The non-recourse loan is secured with a first-tier lien on the property and its expected rental revenues

Hungary and France

Through a foreign subsidiaries the Company held – on the balance sheet date – 42.5% of the ownership rights in two logistic centers in Europe (France and Hungary), with its share in the annual rental fees amounting to €1.0m, linked to the CPI in those countries.

B. Financial Position

Total balance-sheet assets on March 31, 2006 amounted to \$623.5m (December 31, 2005 – \$553.4m).

The net increase stems mainly from an investment in a yielding asset in Germany.

Current assets

Current assets on March 31, 2006 totaled \$50.6m as compared with \$46.4m on December 31, 2005.

Long-term investments

Long-term investments on March 31, 2006 amounted to \$122.3m (December 31, 2005 – \$121.9m).

Yielding assets

Total yielding assets on March 31, 2006 amounted to \$448.9m as compared with \$379.0m on December 31, 2005. The increase stems mainly from an investment in a yielding asset in Germany.

Current liabilities

Total current liabilities on March 31, 2006 amounted to \$59.5m (December 31, 2005 – \$48.3m), with this increase mainly reflecting the financing of investments in Israel and Europe.

Long-term liabilities

Long-term liabilities (including long-term loans obtained to finance the acquisition of yielding assets) on the balance-sheet date amounted to \$436.3m as compared with \$381.2m on December 31, 2005. The increase resulted mostly from loans obtained for investment in yielding assets in Germany. On March 31, 2006 the bank loans, which amounted to \$275.0m, constituted non-recourse loans secured by a first-tier lien on the asset and the receipts in respect thereof.

Shareholders' equity

Shareholders' equity, which amounted – on the balances-sheet date – to \$126.5m (December 31, 2005 – \$122.6m), rose during the reported period by \$3.9m, of which \$2.6m stemmed from net income, despite a current charge of \$335 thousand and a cumulative one of \$6,706 thousand resulting from the implementation of the Israeli Securities Authority's decision to capitalize the management fees paid to the parent company and allocate the related liability against a capital reserve from transactions with a controlling party as part of the shareholders' equity. Concurrently, shareholders' equity was credited with \$1.6m with exchange-rate differences arising from the translation of investees' financial statements.

C. Results of operations

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

	Quarter 1-3/06	Quarter 10-12/05	Quarter 7-9/05	Quarter 4-6/05	Quarter 1-3/05
Revenues	13,727	12,248	12,258	11,651	11,667
Company's share in earnings of affiliates, net	1,651	8,202	1,506	2,409	869
Gain from sales of assets and investment	-	11,014	246	-	2,552
	15,378	31,464	14,010	14,060	15,088
Operating expenses	7,742	10,694	6,227	5,605	5,813
Financing expenses, net	4,508	4,510	4,765	4,104	4,241
	12,250	15,204	10,992	9,709	10,054
Pre-tax income	3,128	16,260	3,018	4,351	5,034
Income taxes	503	2,242	(173)	374	803
Income after taxes on income	2,625	14,018	3,191	3,977	4,231
Minority interest in the results, net	(36)	48	(101)	4	(15)
Net income	2,589	14,066	3,090	3,981	4,216

Revenues

Rental fees and affiliates' earnings in the first quarter of 2006 amounted to \$15.4m compared with \$12.5m in the same quarter last year, an increase of 22.6% over the corresponding period last year, which included the Company's gains of \$2.6m from realization of assets and investments. The Company's share in the affiliates' rental fees income amounted to \$9.2m, as compared with \$1.5m in the same period last year.

Financing expenses

Company's total financing expenses in the first quarter of 2006 amounted to \$4.5m compared with \$4.2m in the same quarter last year.

The financing expenses the first quarter of 2006 include \$3.4m in respect of long-term loans obtained from financial institutions abroad for financing the acquisition of yielding assets abroad. These loans are secured by a fixed lien registered on the buildings. The Company provided neither additional guarantees nor collateral in respect thereof.

Net income

Net income for the first quarter of 2006 amounted to \$2.6m as compared with \$4.2m in the same period last year, which included an affiliate's net gain of \$2.7m from asset realization and a rise in the value of yielding assets. The net income in the first quarter of 2006 rose by 70% over the same period last year without having taken into account gains from asset realization and a rise in the value of yielding assets as noted above.

Liquidity and financing resources

In the first quarter of 2006 operating activities provided the Company with cash flows totaling \$2.9m, as compared with \$2.6m in the same period last year.

Cash flows used in investment activities

Cash flows to investment activities in the first quarter of 2006, which amounted to \$64.5m, compared with \$21.9m in the same period last year. have been primarily affected by investments in Europe.

Cash flows provided by financing activities

Cash flows from financing activities in first quarter of 2006, which amounted to \$62.9m, compared with \$23.3m in the same period last year, have been primarily affected by financing investment activity in Europe.

D. FFO (Funds from Operations)

“FFO” is a non-accounting index accepted in the US, Canada and Europe for providing additional information concerning operating results of yielding real estate companies and which enable a fair basis for comparing results among these companies. The FFO, as defined, expresses net income, computed in conformity with generally accepted accounting principles (GAAP), net of gains (losses) derived from the sale of assets, plus depreciation and amortization pertaining to the real estate.

The Company, which publishes the FFO results in a similar fashion to the publication of the position paper published by NAREIT (the US REIT association), believes that subject – and in addition - to its traditional financial statements, the FFO fairly reflect its results of operations while enabling a basis for comparison with other real estate companies.

The FFO in the first quarter of 2006 amounted to \$4.7m as compared with \$3.2m in the same period last year, an increase of 44.7%.

It should be noted that the FFO:

- does not present cash flows from operating activities based on GAAP;
- reflects neither cash earmarked for financing all the group’s cash-flow requirements nor ability to carry out cash distributions;
- is not deemed as an alternative net income for assessing the Group’s results of operations;
- is not an audited figure.

The following FFO computations pertain to the reported periods:

	Three-month period Ended March 31,		Year ended December 31,
	2 0 0 6	2 0 0 5	2 0 0 5
	In thousands \$		
Net profit	2,589	4,216	(*) 25,352
Adjustments:			
Net gain from sales of assets and investment	-	(2,231)	(9,860)
Depreciation and amortization	1,987	1,625	6,682
Asset write-down plus allocated expenses	-	-	1,681
Adjustments in respect of minority interest in subsidiaries	(114)	(102)	(424)
Adjustments in respect of the Company’s equity in affiliates’ earnings (**)	190	(343)	(8,420)
Adjustments in respect of prior years (Regulation 59d).	-	53	(53)
Total adjustments	2,063	(998)	(10,394)
F.F.O	4,652	3,218	14,958

(*) Restatement – see Note 2.D. to the financial statements.

(**) Stemming mainly from adjustments in respect of depreciation and amortization, provision for asset impairment and net asset revaluation, less allocated expenses

E. Exposure to market risks, business risks and methods used in managing them

Officers responsible for managing market risks

The Company maintains means for overseeing the implementation of its risk-management policy by means of reports addressed in its board meetings. The CEO, CFO and the VP for business development are responsible for managing business risks.

Company's policy and method for managing business risk

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

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

F. Accounting estimates

See directors' report as of December 31, 2005.

G. Disclosure concerning consent for peer review

Pursuant to the guideline of the Israeli Securities Authority published on July 28, 2005 and requiring reporting companies to disclose consent for a "peer review" aimed at improving oversight over the work of their independent auditors, the Company's board of directors approved on March 29, 2006 to provide consent for carrying out the peer review based on a version to be approved by the CEO.

Donations

The Company has no stated policy in regard to donations.

On behalf of the Board of Directors:

Shlomo Sherf
CEO

Gershon Salkind
Chairman of the Board of Directors

May 14, 2006

ELECTRA REAL ESTATE LTD.

APPENDIX
TO THE REPORT OF THE BOARD OF DIRECTORS
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2006

Balance sheet linkage basis - March 31, 2006
(Table 1)

	Linked to Foreign currency(*)	CPI- linked	Unlinked	Balance	Balance sheet total
	(in thousand US dollars)				
Cash and cash equivalents	10,760	-	5,238	-	15,998
Short-term deposits	3,190	-	175	-	3,365
Marketable securities	-	-	22,832	-	22,832
Trade accounts receivable	1,611	-	314	-	1,925
Receivables and other current assets	1,732	169	399	4,165	6,465
Investments in investees	26,220	-	530	57,306	84,056
Other investment	14,919	-	-	-	14,919
Long-term receivables	20,795	-	-	36	20,831
Deferred income taxes	-	-	-	2,498	2,498
Fixed assets, net	-	-	-	251	251
Yielding assets, net	-	-	-	448,910	448,910
Other assets, net	-	-	-	1,471	1,471
Total assets	79,227	169	29,488	514,637	623,521
Short-term bank borrowings to finance yielding assets	37,401	-	3,019	-	40,420
Trade accounts payable	1,684	-	1,393	-	3,077
Payables and other current liabilities	10,793	189	4,988	-	15,970
Long-term loans to finance yielding assets in-					
Britain	41,068	-	-	-	41,068
North America	167,232	-	-	-	167,232
Europe	113,377	-	-	-	113,377
Capital notes	-	-	11	-	11
Debentures	-	75,038	-	-	75,038
Liability from capitalization of management fees to a controlling shareholder	-	-	-	8,942	8,942
Loan from Electra Group companies	24,636	-	-	-	24,636
Loans from minority shareholders in subsidiaries	3,466	-	-	-	3,466
Deferred income taxes	-	-	-	2,509	2,509
Minority interest	-	-	-	1,252	1,252
Total liabilities	399,657	75,227	9,411	12,703	496,998
Net balance sheet amount	(320,430)	(75,058)	20,077	501,934	126,523
Classification of balances linked to the functional currencies of autonomous units	304,407	-	-	-	304,407
Total exposure of assets (liabilities)	(16,023)	(75,058)	20,077	501,934	430,930

ELECTRA REAL ESTATE LTD.

APPENDIX
TO THE REPORT OF THE BOARD OF DIRECTORS
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2006

(*) **Composition**
(table 2)

	US Dollar	Sterling	Euro	Canadian dollar	Other	Linked to foreign currency
	(in thousand US dollars)					
Cash and cash equivalents	1,866	1,895	4,507	2,492	-	10,760
Short-term deposits	1,322	150	-	1,718	-	3,190
Marketable securities	-	-	-	-	-	-
Trade accounts receivable	407	-	201	1,003	-	1,611
Receivables and other current assets	61	265	56	1,350	-	1,732
Investments in investees	9,300	-	12,486	4,434	-	26,220
Other investment	-	14,919	-	-	-	14,919
Long-term receivables	1,823	1,286	10,693	2,856	4,137	20,795
Deferred income taxes	-	-	-	-	-	-
Fixed assets, net	-	-	-	-	-	-
Yielding assets, net	-	-	-	-	-	-
Other assets and net deferred charges, net	-	-	-	-	-	-
Total assets	14,779	18,515	27,943	13,853	4,137	79,227
Short-term bank borrowings to finance yielding assets	10,950	1,314	11,179	1,387	12,571	37,401
Trade accounts payable	-	-	64	1,618	2	1,684
Payables and other current liabilities	615	4,710	2,406	2,934	128	10,793
Long-term loans to finance yielding assets in-						
Britain	-	41,068	-	-	-	41,068
North America	54,271	-	-	112,961	-	167,232
Europe	1,100	-	112,277	-	-	113,377
Capital notes	-	-	-	-	-	-
Debentures	-	-	-	-	-	-
Liability from capitalization of management fees to a controlling shareholder	-	-	-	-	-	-
Loan from Electra Group companies	-	-	3,584	21,052	-	24,636
Loans from minority shareholders in subsidiaries	-	76	-	3,390	-	3,466
Deferred income taxes	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Total liabilities	66,936	47,168	129,510	143,342	12,701	399,657
Net balance sheet amount	(52,157)	(28,653)	(101,567)	(129,489)	(8,564)	(320,430)
Classification of balances linked to the functional currencies of autonomous units	44,609	28,653	101,567	129,489	89	304,407
Total exposure of assets (liabilities)	(7,548)	-	-	-	(8,475)	(16,023)

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 March 31, 2006 and for the three-month period 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 March 31, 2006, and the related condensed interim consolidated statements of operations, changes in shareholders' equity and cash flows for the three-month period then ended (in the Hebrew language, not included herein) and have issued our accountants review report thereon dated May 14, 2006.

The aforementioned financial statements (not presented separately herein) were prepared in the Hebrew language in reported NIS (see also Note 1), in accordance with pronouncements issued by the Israeli Accounting Standards Board.

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 72% of the total consolidated balance at March 31, 2006 and revenues 86% of the consolidated total for the three-month period then ended. We did not review the financial statements of investee companies, in which the Company's investment as of March 31, 2006 amounted to \$84,056 thousand and the Company's share in their results amounted to \$1,651 thousand for the three-month period then ended. The financial statements of those companies were reviewed by other accountants.

As described in Note 1, the accompanying English-language condensed interim consolidated financial statements in US dollars represent a translation of the above-mentioned reported 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 March 31, 2006. Comparative figures for the three-month period ended March 31, 2005 and for the year ended December 31, 2005 represent a translation of the original reported NIS values of the respective period, using the representative dollar exchange rate in effect on March 31, 2006. 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, May 31, 2006

ELECTRA REAL ESTATE LTD.

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

	March 31,		December 31,
	2006	2005	2005
	In thousands		In thousands
	(unaudited)		
ASSETS			
Current assets			
Cash and cash equivalents	15,998	9,498	14,539
Short-term deposits	3,365	2,305	2,552
Marketable securities	22,832	-	21,431
Trade accounts receivable	1,925	1,210	914
Receivables and other current assets	6,465	5,559	6,928
	50,585	18,572	46,364
Investments, loans and long-term receivables			
Loans and long-term receivables	20,831	14,817	23,967
Investments in affiliates	84,056	27,987	80,954
Other investment	14,919	-	14,576
Deferred income taxes	2,498	-	2,386
	122,304	42,804	121,883
Yielding assets, net in -			
Israel	113,186	107,482	109,978
Britain	49,810	94,979	48,792
North America	166,783	151,679	164,830
Europe	119,131	14,045	55,382
	448,910	368,185	378,982
Fixed assets, net	251	277	128
Other assets, net	1,471	4,915	6,005
	623,521	434,753	553,362

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**

	March 31,		December 31,
	2 0 0 6	2 0 0 5	2 0 0 5
	In thousands		In thousands
	(unaudited)		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans to finance yielding properties (including current maturities of long-term loans)	40,420	57,335	30,460
Trade accounts payable	3,077	568	1,959
Payables and other current liabilities	15,970	11,247	15,928
	59,467	69,150	48,347
Loans for financing yielding assets in -			
Britain	41,068	74,629	40,730
North America	167,232	121,235	166,156
Europe	113,377	9,310	58,676
	321,677	205,174	265,562
Long-term liabilities			
Capital notes	11	11	11
Debentures	75,038	-	77,529
Liability of management fees to a controlling party	8,942	-	8,495
Loan from Electra Group companies	24,636	74,099	23,929
Loans from shareholders in subsidiaries	3,466	2,833	3,318
Deferred income taxes	2,509	2,109	2,359
	114,602	79,052	115,641
Minority interest	1,252	1,329	1,208
Shareholders' equity	126,523	80,048	122,604
	623,521	434,753	553,362

Approval date of the financial statements

Tel - Aviv, May 14, 2006

Zvi Duskin
CFO

Shlomo Sherf
CEO

Gershon Salkind
Chairman of the
Board of Directors

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

	Three-month period ended March 31,		Year ended December 31,
	2 0 0 6	(**)2 0 0 5	(**)2 0 0 5
	In thousands (unaudited)		In thousands
Revenues			
Rental fees and management fees	13,727	11,667	47,813
Company's share in income of affiliates, net	1,651	869	12,987
Realization of investments and yielding assets	-	2,552	13,823
Total revenues	<u>15,378</u>	<u>15,088</u>	<u>74,623</u>
Costs and Expenses			
Operating expenses and maintenance fees	5,036	3,810	16,186
Depreciation and amortization	1,987	1,625	8,550
General and administrative expenses (including management fees)	719	378	(*)3,603
Financing expenses, net	4,508	4,241	17,621
Total costs and expenses	<u>12,250</u>	<u>10,054</u>	<u>45,960</u>
Pre-tax income	3,128	5,034	28,663
Income taxes	503	803	3,246
Income after taxes on income	2,625	4,231	25,417
Minority interest in income of subsidiaries, net	(36)	(15)	(65)
Net income for the period	<u>2,589</u>	<u>4,216</u>	<u>25,352</u>
Earnings (loss) per share, net - in dollars:			
Basic	<u>0.11</u>	<u>0.21</u>	<u>(*)1.19</u>
Diluted	<u>0.11</u>	<u>0.21</u>	<u>(*)1.19</u>
Number of shares used in EPS computations (in thousands)			
Basic	<u>23,600</u>	<u>20,000</u>	<u>21,351</u>
Diluted	<u>23,656</u>	<u>20,000</u>	<u>21,351</u>

(*) Retroactive adjustment in connection with implementation of new accounting standards – see Note 2.D.

(**) Reclassified – see Note 2.E.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

For the three month period ended March 31, 2006

	Share Capital	Additional paid-in capital	Cumulative balance stock-based of compensation and proceeds from the issuance of options	Capital reserve from foreign currency translation adjustment	Capital reserve arising from transactions with a controlling party	Retained earnings	Total
(Unaudited)							
(In thousand U.S. dollars)							
Balance - January 1, 2006	(***) -	68,506	1,761	3,465	(6,371)	55,243	122,604
Capital reserve from capitalization of management fees to a controlling party	-	-	-	-	(335)	-	(335)
Foreign currency translation adjustment of autonomous units	-	-	-	1,557	-	-	1,557
Expenses due to options granted to officers	-	-	108	-	-	-	108
Net income for the period	-	-	-	-	-	2,589	2,589
Balance - March 31, 2006	(***) -	68,506	1,869	5,022	(6,706)	57,832	126,523

For the three month period ended March 31, 2005

	Share capital	Additional paid-in capital	Currency translation adjustment	Capital Reserve from foreign	Retained earnings	Total
(Unaudited)						
(In thousand U.S. dollars)						
Balance - January 1, 2005	(***) -	42,553	3,492	30,107	76,152	
Foreign currency translation adjustment of autonomous units	-	-	(320)	-	(320)	
Net income for the period	-	-	-	4,216	4,216	
Balance - March 31, 2005	(***) -	42,553	3,172	34,323	80,048	

- (*) Retroactive adjustment in connection with implementation of new accounting standards – see Note 2.D.
(**) Net of issuance expenses.
(***) Less than \$1 thousand.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

Year ended December 31, 2005

	Share Capital	Additional paid-in capital	Cumulative balance stock-based of compensation and proceeds from the issuance of options	Capital reserve from foreign currency translation adjustment	Capital reserve arising from transactions with a controlling party	Retained earnings	Total
(In thousand U.S. dollars)							
Balance - January 1, 2005	(***) -	42,553	-	3,492	-	30,107	76,152
Issuance of shares (**)	(***) -	25,953	-	-	-	-	25,953
Issuance of stock options (**)	-	-	1,598	-	-	-	1,598
Capital reserve from capitalization of management fees to a controlling party	-	-	-	-	(6,371)	-	(6,371)
Capital reserve in respect of financing expenses to a controlling party	-	-	-	-	-	(216)	(216)
Foreign currency translation adjustment of autonomous units	-	-	-	(27)	-	-	(27)
Expenses due to options granted to officers	-	-	(*)163	-	-	-	163
Net income for the period	-	-	-	-	-	(*)25,352	25,352
Balance - December 31, 2005	-	<u>68,506</u>	<u>1,761</u>	<u>3,465</u>	<u>(6,371)</u>	<u>55,243</u>	<u>122,604</u>

(*) Retroactive adjustment in connection with implementation of new accounting standards – see Note 2.D.

(**) Net of issuance expenses.

(***) 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 U.S. DOLLARS**

	Three-month period ended March 31,		Year ended December 31,
	2006	2005	2005
	In thousands (unaudited)		In thousands
Cash Flow - Operating Activities:			
Net income	2,589	4,216	(*) 25,352
Adjustments required to present cash flows from operating activities (Appendix A)	269	(1,529)	(*) (12,895)
Net cash provided by operating activities	<u>2,858</u>	<u>2,687</u>	<u>12,457</u>
Cash Flows - Investing Activities:			
Investment in marketable securities	(1,058)	-	(21,315)
Long-term loans granted	(3,188)	(39)	(5,580)
Collection of long-term debts (also from related parties)	7	12	1,307
Proceeds from the sale of investes that were proportionately consolidated (Appendix B)	-	5,640	15,277
Short-term deposits, net	(778)	327	234
Investment in deposits designated for yielding assets	(6,723)	-	(13,708)
Investment in investee companies including deposit designated to investee	-	(23,257)	(68,091)
Acquisition and construction of yielding assets	(52,622)	(4,249)	(55,212)
Acquisition of fixed assets and other assets	(144)	(358)	(1,173)
Proceeds from disposition of yielding properties	-	-	30,639
Net cash used in investing activities	<u>(64,506)</u>	<u>(21,924)</u>	<u>(117,622)</u>
Cash Flows - Financing Activities:			
Issuance of debentures and options for debentures, net of related expenses	-	-	74,608
Issuance of stock options, net of related expenses	-	-	1,598
Dividend paid to minority shareholders in a subsidiary	-	-	(122)
Issuance of shares, net of issuance expenses	-	-	25,954
Receipt of long-term loans.	54,001	1,408	85,896
Repayment of long-term loans	(771)	(587)	(32,568)
Receipt (repayment) of loans and capital notes from the Electra Group companies, net	282	7,138	(46,810)
Receipt of loans and capital notes from minority shareholders in a consolidated subsidiaries, net	101	76	294
Receipt (repayment) of short-term bank borrowings, net	9,286	15,227	5,414
Net cash provided by financing activities	<u>62,899</u>	<u>23,262</u>	<u>114,264</u>
Translation differences relating to cash balances in autonomous units	<u>208</u>	<u>(91)</u>	<u>(124)</u>
Increase in cash and cash equivalents	1,459	3,934	8,975
Cash and cash equivalents at beginning of period	14,539	5,564	5,564
Cash and cash equivalents at end of period	<u>15,998</u>	<u>9,498</u>	<u>14,539</u>

(*) Retroactive adjustment in connection with implementation of new accounting standards – see Note 2.D.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

	Three-month period ended March 31,		Year ended December 31,
	2006	2005	2005
	In thousands		In thousands
	(unaudited)		
Appendix A - Adjustments to reconcile net income to net cash provided by operating activities:			
Expenses (income) not involving cash flows:			
Company's share in earnings of investees, net	(1,651)	(869)	(12,987)
Minority interest in earnings of subsidiaries, net	36	15	65
Depreciation and amortization	1,987	1,625	8,550
Change in value of long-term receivables and liabilities, net (including the allocation of interest to the parent company)	(462)	538	1,517
Deferred income taxes	132	401	471
Capital gain from realization of investments and sales of assets	-	(2,552)	(13,823)
Gain from marketable securities	(344)	-	(116)
Recording of expenses in connection with options which were granted to officers	109	-	(*) 163
Changes in assets and liabilities:			
Trade accounts receivables	(1,000)	(909)	(603)
Receivables and other current assets	556	(1,220)	(1,430)
Trade accounts payables	1,097	(908)	350
Payables and other current liabilities	(191)	2,350	4,948
	269	(1,529)	(12,895)
Appendix B - Proceeds from the sale of an investee that was proportionately consolidated			
Assets and liabilities at acquisition:			
Net working capital (excluding cash)		(14)	(551)
Yielding assets, net		18,437	43,900
Long-term liabilities		(15,336)	(34,348)
Profit from investment realization		2,553	6,276
		5,640	15,277

(*) Retroactive adjustment in connection with implementation of new accounting standards – see Note 2.D.

The accompanying notes are an integral part of the financial statements

**ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENT**

NOTE 1 - FINANCIAL STATEMENTS IN REPORTED VALUES

These interim financial statements are presented in US dollars, derived from convenient translation of the financial statements prepared in reported NIS, in accordance with pronouncements issued by the Israeli Accounting Standard Board, into US dollars by using the conversion rate prevailing on March 31, 2006 (\$1.00= NIS 4.665).

The accompanying English-language condensed interim consolidated financial statements in US dollars represent a translation of the above-mentioned reported 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 March 31, 2006. Comparative figures for the three-month period ended March 31, 2005 and for the year ended December 31, 2005 represent a translation of the original reported NIS values of the respective period, using the representative dollar exchange rate in effect on March 31, 2006. 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

- A.** The interim financial statements are prepared in conformity with accounting principles generally accepted for interim financial statements, as established in Standard 14 of the Israel Accounting Standards Board and in accordance with the Securities Regulations, chapter D (Periodic and Immediate Reports), 1970.

These interim financial statements prepared at March 31, 2006 and for the three-month period then ended, should be read in conjunction with the Company's audited 2005 annual financial statements.

Except to the mentioned below, the majority of the accounting policies in these interim financial statements were prepared consistently to the audited 2005 annual financial statements.

- B. New accounting standards and their impact**

Accounting Standard No.22 - Financial Instruments: Disclosure and Presentation

This standard, published by the IASB at the end of July 2005, establishes rules for presenting financial instruments in the financial statements and outlining the disclosure required in respect thereof. The presentation requirements pertain to the classification of financial instruments as financial assets, financial liabilities or capital instruments. It also pertains to the classification of related interest, dividends, losses and profits and to the circumstances under which financial assets and liabilities are to be offset. The standard requires disclosure of information relating to factors affecting the amount, timing and certainty of an entity's future cash flows linked to financial instruments and to the accounting policies implemented in respect of these instruments. The standard also requires disclosure of information pertaining to the essence of, as well as volume done in, financial instruments, the business goals they serve, the associated risks and management's policy designed to control these risks.

The new standard replaced, upon its introduction, Opinion No. 53 ("Accounting Treatment of Convertible Liabilities") and Opinion No. 48 ("Accounting Treatment of Options") and applied to financial statements covering periods starting on January 1, 2006 or thereafter, with its adoption implemented by the "prospective" method. Comparative figures presented in those financial statements have not been restated.

**ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENT**

Note 2 - SIGNIFICANT accounting policies (CONT.)

B. New accounting standards and their impact (cont.)

Accounting Standard No.22 - Financial Instruments: Disclosure and Presentation (cont.)

The standard's implementation has caused the Company to classified deferred expenses incurred in attaining financing contracts and debenture-issuance (jointly amounting – on the balance- sheet date - to \$4.7m) as a reduction in loan and debenture balances. The comparative figures on December 31, 2005 and March 31, 2005 have not been reclassified, in accordance with the standard's transitional provisions.

Accounting Standard No.24 - Stock-Based Payment

This standard, published by the IASB in September 2005, requires the recognition in the financial statements of stock-based-payment transactions, including those carried out with employees or other parties and which are cleared in cash, other assets or by capital instruments. Accordingly, expenses pertaining to grants pf shares and options to employees will be allocated over these grants' vesting period based on each grant's fair value at the time of the grant. The standard also establishes measurement rules as well as specific requirements for such transactions, which are cleared by capital instruments and cash, as well as transactions whose terms enable anyone of the parties to elect between a clearance in cash or by a capital instrument. The standard also outlines various disclosure requirements as to the share-based-payment arrangements.

As for stock-based transactions cleared by equity instruments, the standard requires the measurement of merchandise and/or services received as well as the parallel increase in shareholders' equity, directly, based on their fair value, unless it is not possible to reliably estimate their fair value. In this case, it is necessary to measure the fair value and the parallel increase in shareholders' equity, indirectly, in relation to the fair value of the granted equity instruments. As for transactions with employees and others providing similar services - the standard requires to measure the fair value of the equity instruments at time of grant.

The new standard is being implemented for periods that commence on January 1, 2006 or subsequent thereto. The transitional provisions relating to stock-based transactions that are settled by equity instruments state that this standard should be implemented for all grants taking place subsequent to March 15, 2005 and not yet vested by January 1, 2006. Since the standard is being implemented for periods that commence on January 1, 2006, expenses in connection with grants which were made after March 15, 2005 were not recorded in the financial statements for the year 2005, but the financial statements for the year 2005 were retroactively adjusted for the purpose of including the expenses which are relative to that period with administrative and general expenses- see Note 2.D below.

The Company estimates that implementation of the new standard will increase its general and administrative expenses by a pre-tax amount of \$1.0m over the vesting period of the options granted to its officers (between 2006 - 2010). Accordingly, the first quarter of 2006 has reflected such an expense of \$107 thousand.

**ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENT**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. New accounting standards and their impact (cont.)

Accounting Standard No.21 - Earnings per Share

In February 2006 the Israeli Accounting Standards Board issued Accounting Standard No. 21, "Earnings per Share" ("the Standard"). Upon the introduction of this Standard, Opinion No. 55 of the Institute of Certified Public Accountants in Israel on Earnings per Share will be superseded.

The Standard establishes that an entity is to compute its basic earnings per share in regard to income or loss attributable to ordinary shareholders of the reporting entity, and that the entity shall compute its basic EPS with respect to income or loss from continuing operations attributable to the ordinary shareholders of the reported entity, should such be presented.

Basic earnings per share is to be computed by dividing income or loss attributed to holders of ordinary shares of the reporting entity (numerator), by the weighted average of the outstanding ordinary shares (denominator) during the period.

In its computation of diluted earnings per share, the entity must adjust its income or loss attributable to the ordinary shareholders of the reporting entity and the weighted average of the outstanding shares for the effects of all the dilutive potential ordinary shares.

The Standard applied to financial statements for periods starting January 1, 2006 and thereafter. Based on the standard, the Company retroactively implemented its provisions pertaining to comparative figures of earnings per share relating to previous periods.

Standard No.25 - Revenues

In February 2006 the Israeli Accounting Standards Board published Accounting Standard No.25 ("Revenues"), which establishes rules for the recognition, measurement and presentation of revenues arising from the:

sale of goods; rendering of services; and use by others of entity assets yielding interest, royalties and dividends.

The standard states that an entity should measure its revenues based on the fair value of the proceeds received and/or entitled to.

The Standard applied to financial statements for periods starting January 1, 2006 and Thereafter. Assets and liabilities included in the balance sheet on December 31, 2005 in amounts different than those recognized before this standard's implementation have been adjusted on January 1,2006 to the amounts recognized based on this standard, with the effect of this adjustment recognized as a cumulative effect of an accounting change.The implementation of the provisions of the new standard had no effect on the financial condition, operating results and cash flows of the Company.

**ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENT**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. New accounting standards and their impact (cont.)

Standard No.20 - accounting treatment of Goodwill and other intangibles upon the acquisition of an investee

In March 2006 the Israeli Accounting Standards Board ("the Board") published the revised Standard No.20 ("Accounting Treatment of Goodwill and Other Intangibles upon the Acquisition of an Investee"), which applies to financial statements covering periods beginning on January 1, 2006 ("the Effective Date").

According to the standard, the excess of acquisition cost of an investment in an investee over the share of the company holding the fair value of the investee's identifiable assets, including intangibles, net of the fair value of identifiable liabilities (after tax allocation) at acquisition, constitutes goodwill. The allocation of excess acquisition cost to an acquired intangible asset will take place only if it is identifiable by the criteria established in this standard. Goodwill will not be amortized but will rather be examined once a year or more frequently should signs indicate goodwill impairment. Moreover, should a negative goodwill be created upon acquisition it would be recognized as a gain and immediately allocated to operations and not amortized.

The standard distinguishes between intangible assets, which have defined useful lives and those that do not, stating that the former should be amortized while the latter should not while rather examined whether any signs indicate impairment.

Comparative figures for prior years covering periods before the Effective Date should not be restated and, starting on the Effective Date, the positive goodwill presented in the balance sheet on December 31, 2005 has no longer been amortized, including the one presented in the investment account of an affiliate. Subsequently, the company should periodically examine the goodwill's net book value, as noted above. The negative goodwill presented in the 2005 annual financial statements will be deleted at the start of the period, to be fully allocated to the opening balance of retained earnings at that time. Moreover, starting then, the amortization of an intangible asset having undefined useful life stemming from the acquisition of an investee and included in the 2005 annual financial statements will be discontinued, with its value re-examined accordingly.

The implementation of the provisions of the new standard had no effect on the financial condition, operating results and cash flows of the Company.

**ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENT**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

	March 31,		December 31,
	2006	2005	2005
CPI (in points)	186.12	179.66	185.05
<u>In NIS:</u>			
US dollar	4.665	4.361	4.603
Pound sterling	8.1271	8.2059	7.9406
Hungarian forint	0.021215	0.0228	0.021492
Polish zlot	1.4386	1.3837	1.4111
Canadian dollar	4.02	3.5958	3.9642
Euro	5.6619	5.6488	5.4465
Swiss franc	3.5868	3.6460	3.4985
Japanese yen	0.039724	0.0408	0.039211
<u>Change in exchange rate during the period then ended (in %):</u>			
CPI	0.58	(0.6)	2.39
US dollar	1.35	1.23	6.85
Pound sterling	2.35	(1.22)	(4.42)
Hungarian forint	(1.29)	(4.59)	(10.12)
Polish zlot	1.95	(3.95)	(2.05)
Canadian dollar	1.41	0.48	10.77
Euro	3.95	(3.88)	(7.32)
Swiss franc	2.52	(4.21)	(8.09)
Japanese yen	1.31	(2.92)	(6.65)

D. Retroactive adjustment with respect to the implementation of new accounting standards:

The Company has retroactively adjusted the financial statements as of December 31, 2005 and for the year ended on that date in order to reflect the recording of expenses in connection with the granting of share options to officers, in accordance with Standard 24 of the Israeli Accounting Standards Board.

In addition, the earnings-per-share data has been adjusted in order to retroactively reflect the noted correction as well as the provisions of Standard No. 21 of the Israeli Accounting Standards Board.

**ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENT**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

D. Retroactive adjustment with respect to the implementation of new accounting standards: (Cont.)

Effect of the adjustment on the financial statements:

Consolidated statement of operations for the year ended December 31, 2005

	<u>Previously Reported</u>	<u>Change</u>	<u>Currently presented</u>
	<u>(in thousand US dollars)</u>		
General and administrative expenses	<u>3,440</u>	<u>163</u>	<u>3,603</u>
Net income	<u>25,515</u>	<u>(163)</u>	<u>25,352</u>
Earnings per share (basic), net (in dollars)	<u>1.19</u>	<u>-</u>	<u>1.19</u>
Earnings per share (diluted), net (in dollars)	<u>1.19</u>	<u>-</u>	<u>1.19</u>

Statement of changes in shareholders' equity for the year ended December 31, 2005

	<u>Previously Reported</u>	<u>Change</u>	<u>Currently presented</u>
	<u>(in thousand US dollars)</u>		
Retained earnings	<u>25,515</u>	<u>(163)</u>	<u>25,352</u>
Cumulative balance representing stock- based proceeds from the issuance of options	<u>1,598</u>	<u>163</u>	<u>1,761</u>
Shareholder's Equity	<u>122,604</u>	<u>-</u>	<u>122,604</u>

E. Reclassification

Management has re-examined the nature of financial statement presentation and preparation and decided to include the operating items by the "one-stage" presentation since – in its opinion – this method is most suitable for the Company, which is engaged in investments and holdings and whose assets consist primarily of investments in investees and real estate for lease.

This format, although different than the one required by the Israeli Securities regulations (Preparation of Annual Financial Statements), 1993, is permitted by Regulation 8 therein.

**ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENT**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - ESSENTIAL EVENTS DURING THE BALANCE PERIOD

- A. In January 2006 the Company concluded, through a held partnership, a transaction for acquiring 70% of the rights in an office building in Hamburg, Germany. The asset, a six-story office building of totaling 29,200 sq. m plus about 200 indoor parking spaces, was acquired (100%) for a gross amount of €70.3m (\$82.1), plus related expenses totaling €6.5m (\$7.6m). The building is entirely leased to four tenants for various periods expiring between 2011 and 2015. Net annual rental fees (100%) amount to €5.25m (\$6.13m), linked to a mechanism providing an increment of 2% per annum payable at the beginning of the year. All management and maintenance expenses are paid by the tenants.
A German financial institution provided a loan of €63.5m (\$74.2m), at an annual interest rate of 5.21% for a period of seven years. The loan is secured by a non-recourse fixed first-tier lien on the assets and its income.
- B. In March 2006 the Company acquired 70% in a project under construction in the city of Halle, Germany, estimated to cost about €14.4m (\$17.6m- 100%) plus an additional €0.5m (\$0.6m). The constructed three-storey, 8,800 sq. m.- building will consist of 400 stores and be fully occupied by Dell Computers on a 10-year lease beginning with the end of the construction work (estimated completion date – October 2006). The annual net rental fees, which amount to €1.21m (\$2.7m – 100%), incorporate a mechanism allowing for an annual increase of 1.8% per annum at the beginning of each year, with all current management and maintenance fees paid by the tenant.
A German financial institution provided of €12.1m (\$14.8m) for financing the entire project at annual interest of 5.2%, repayable in seven years following project completion.

NOTE 4 - SUBSEQUENT EVENTS

- A. In April 2006 a wholly owned and controlled foreign subsidiary of the Company acquired 40% of the rights in a yielding property in Atlanta, USA, at a cost of \$40m (100%), plus related expenses totaling \$1.4m. The 18-storey 40,500 sq. m. - building, which is designed for historical preservation, is located in Atlanta's business district and includes 625 indoor parking spaces. The building is leased to various tenants for various periods, with the lease of Sun Trust Bank (the main tenant) expiring in December 2010. The present occupancy rate is 78%, with annual gross rental fees amounting to \$6.7m, net of management and maintenance expenses of \$2.9m.
The transaction was financed by a 10-year, non-recourse bank loan of \$30.5m at a fixed interest rate of 6.33% and secured with a first-tier lien on the property and its expected rental revenues.
- B. In May 2006 the Company reached an understanding with its banks for extending its long-term credit frameworks by \$45.7m, subject to the fulfillment of the terms agreed upon. Accordingly, the amounts due were presented on the March 31, 2006 balance sheet as "long-term loans".
- C. In May 2006 a wholly owned and controlled foreign subsidiary of the Company acquired 30% of the rights in a yielding property in Toronto, Canada (following its acquisition – in January 2004 – of 70% of the rights based on a property value of C\$43m) at a cost of C\$21.3m (\$18.4) based on a property value of C\$71m, plus related expenses totaling C\$0.8m (\$0.7m). The 25-storey, 33,600 sq. m. - building is located in Toronto's business district and leased mainly (50%) to the Canadian government (about 50%) in a lease expiring in October 2015 and to the insurance company Zurich (about 30%) in a lease expiring in January 2014.

**ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENT**

NOTE 4 - SUBSEQUENT EVENTS (Cont.)

C. (Cont.)

Following the recent meaningful increase in the property's value, the Company refinanced it by obtaining a 10-year loan of C\$57m (\$49.3m) from a Canadian bank at an annual fixed rate of 5.68%. The non-recourse loan is secured with a first-tier lien on the property and its expected rental revenues

- D. In May 2006 a wholly owned and controlled foreign subsidiary of the Company concluded, through a foreign subsidiary, a transaction for acquiring, in stages, 45% of the rights in eight shopping malls, five of which are located in German cities (Berlin, Munich and Nuremberg) and three in Swiss cities (Zurich, Biel and Lucerne). The area of all eight malls totals 125,000 sq. m.. The transaction is estimated at a cost of €203.4m (\$257m – 100%), plus related expenses of €11.6m (\$14.1m). The eight shopping malls are fully leased (100%) to Hornbach, a leading company in the DIY (“do it yourself”) domain, for a 15-year period starting with each project completion, with renewal options granted to the tenants. Expected gross rental fees amount to €12.8m (\$15.6m), linked to consumer-price index, with all management and maintenance fees paid by the tenant.

In the first stage the Company concluded the acquisition of rights to three malls (in Germany) at €53.1m (\$64.5m), plus related expenses totaling €4.6m (\$5.5m). The remaining malls, which are under various stages of construction – will be bought and paid with the completion of each mall and the start of rental fees, now estimated between the second half of 2007 and the end of the first half of 2008.

The banking credit line provided is €182.5m (\$214m) for financing the entire transaction at an expected average interest rate of 4.5% per annum. The five-year, non-recourse loan for the first three malls amounted to €48m (\$58.3m) at a fixed annual rate of 5.18%. The non-recourse loan is secured with a first-tier lien on the property and its expected rental revenues

**ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENT**

NOTE 5 - 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 gains from sale of assets.

	<u>Israel</u>	<u>Europe</u> (in thousand US dollars)	<u>North America</u>	<u>Total</u>
Three month period ended March 31, 2006:				
Segment revenues	<u>2,132</u>	<u>4,379</u>	<u>8,867</u>	<u>15,378</u>
Segment profit	<u>662</u>	<u>1,159</u>	<u>1,307</u>	<u>3,128</u>
Three month period ended March 31, 2005:				
Segment revenues	<u>1,989</u>	<u>6,129</u>	<u>6,970</u>	<u>15,088</u>
Segment profit	<u>579</u>	<u>3,847</u>	<u>608</u>	<u>5,034</u>
Year ended December 31, 2005:				
Segment revenues	<u>7,944</u>	<u>33,442</u>	<u>33,237</u>	<u>74,623</u>
Segment profit	<u>(*) (3,070)</u>	<u>24,894</u>	<u>6,839</u>	<u>28,663</u>

(*) Retroactive adjustment in connection with implementation of new accounting standards – see Note 2.D.

**ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENT**

NOTE 6 - PROFORMA FINANCIAL STATEMENTS

In August 2005 the Company engaged with its parent company in a agreement constituting an addendum to the existing management agreement in effect between the parties, along with another agreement according to which the Company would proportionately participate in the management fees paid by the parent company to Elco (see Notes 23.f and 23g to the annual financial statements). The effect on the consolidated statement of operations during the reported period is presented below (assuming that the abovementioned agreements were in effect during these periods):

	Three-month period ended March 31, 2005	Year ended December 31, 2005
	In thousands US dollars (unaudited)	In thousands US dollars
Net income as previously reported	4,216	25,352
An addition to the management fees - proforma	(514)	(977)
Tax effect	171	268
Net income - proforma	3,873	24,643
Earnings per share (in dollars):		
Basic and Diluted	0.19	1.15

(*) Retroactive adjustment in connection with implementation of new accounting standards – see Note 2.D.