

ELECTRA REAL ESTATE LTD.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2009
(CONVENIENCE TRANSLATION INTO U.S. DOLLARS)
(UNAUDITED)

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Contents

	<u>Page</u>
Directors' report	1b-1m
<u>Independent auditor review report</u>	2
<u>Interim condensed consolidated financial statements (unaudited)</u>	
Condensed consolidated Balance sheets	3-4
Condensed consolidated statements of operations	5
Condensed consolidated statements of comprehensive income (loss)	6
Condensed consolidated statements of changes in equity	7-9
Condensed consolidated statements of cash flows	10-12
Notes to condensed consolidated financial statements	13-24

ELECTRA REAL ESTATE LTD.

REPORT OF THE BOARD OF DIRECTORS FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2009

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 period of three months ended March 31, 2009. (hereinafter - "Report period")

This report should be read in context with the Company's annual financial statements (including its Report of the Board of Directors as of December 31, 2008).

The Company's activities are conducted through the Company and its subsidiaries. See also the Report on the Business Description of the Company as of December 31, 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, 111 assets including 100 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	Yielding assets
	58	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	8	Yielding assets
Belgium	1	Yielding asset
Luxemburg	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 1,175,000 sq. mtrs., with another 470,000 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

During the first quarter of 2009 the global markets financial crisis, which aggravated in the last period continued, 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.

The aforementioned events caused and still causing to a significant reduction in the number of real estate transactions in Israel and around the world, inter alia, due to worsen in terms for credit recruitment, due to rate leverage reduction and depravation in market terms.

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 |



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:

- February 2009 - The Company has signed a principles document to sale three assets in Israel. After the report period the company came to an agreement with the buyers that the transaction will include a sale of only two assets. The expected cash flow (gross before tax) regarding the sale of the two assets and after repaying their loans is \$ 15 million. As of the balance sheet date those assets were classified as "investment available for sale" in the current asset group.

Transactions after the report period:

- May 2009 – The company sold an office floor in Haifa.

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 1.11 in the Report of the Business Description of the Company as of December 31, 2008).

As of March 31, 2009, Electech operates in the United States, Germany, Holland, Switzerland, Belgium, Luxembourg 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.

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.

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, one of which are held at a rate of 60% in lease contracts for periods which ends between 2009 and 2022 and 9 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 20% 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:

- March 2009 – Electech Inc came to an agreement with HGI shareholders in which she will decreased in her holding percentage in HGI from 25% to 20%, in exchange to decreasing HGI shareholders' compensation amounted to \$ 4.875 million which supposed to be paid in July 2009. For additional details see paragraphs 8.2.2.6 in the Report of the Business Description of the Company as of December 31, 2008.
- March 2009 – Electech Inc sold 11% of her rights in an office building in Chicago, USA. After the sale the company's holding percentage in this asset is 49%. In the company's balance sheet as of March 31, 2009, the asset is classified as an investment in affiliate compared with previous periods in which the asset was proportionally consolidated. The profit derived to the company in the report period from the rights' sale as aforesaid is non-material.

Europe (Germany, Holland, Switzerland, Belgium and Luxembourg)

At the balance-sheet date, through its foreign subsidiaries Electech holds rights in fifty eight buildings in Germany, Holland, Switzerland, Belgium and Luxembourg of which, 61 buildings at a shareholding rate of between 50% and 100% in rental contracts ending in the years 2009-2033. An additional 8 properties held through affiliates at rate of 42.5%- 45%.

Transactions during the period:

- January 2009 – Electech acquired 45% of two shopping centers Hornbach, in Holland and one shopping center in Luxembourg (in addition to four shopping centers which she is already owns) in accordance to a framework agreement signed in 2006. For additional details see paragraphs 8.3.2.6 in the Report of the Business Description of the Company as of December 31, 2008.
- February 2009 – Electech acquired through a subsidiary a part of a loan granted to a jointly-controlled company (70%) of Electech from a foreign financial institute to buy assets in Germany in May 2007. The book value of the repaid loan (100%) is € 7 million (approximately \$ 9.3 million). Regarding this acquisition the company included in the report period a profit before tax from the loan early repayment amounted to € 2 million (approximately \$ 2.6 million) in the "financial income" section in the statement of operation.

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. After the report period the construction of this stage started.

For additional details on the Company's investments in yielding assets in India, see paragraphs 8.4 in the Report of the Business Description of the Company as of December 31, 2008.

B. Financial Position

Total assets as of the balance sheet date amounted to \$2,329 million, compared with \$2,303 million at the end of 2008. Most of the increase in the volume of assets and liabilities (as set forth below in the various balance sheet items) of the Company at the balance sheet date is attributable to a change in exchange rates of the currencies in the markets in which it operates.

Details on the change in exchange rates in relation to the shekel between 31/12/2008-31/03/2009

Currency	Rate Change (in %):
US Dollar	+ 10.1%
Euro	+ 5.2%
Pound Sterling	+ 8.0%
Swiss Franc	+ 3.1%
Canadian Dollar	+ 7.3%

Current assets

Total current assets as of the balance sheet date amounted to US\$ 99.6 million, compared with US\$ 93.8 million as of the end of 2008. The increase in current assets is primarily attributable to a classification of investment available for sale to this section. The increase was partly compensated by a fall in cash balances for investment made by the company to acquire three yielding assets, loan acquisition in Europe, execution payment regarding asset under construction in Israel and from prepaid expenses paid during the report period for all 2009.

Non current assets

Non current assets as of the balance sheet date amounted to US\$ 291.3 million as compared with US\$ 236.9 million on December 31, 2008. The increase in non-current assets is primarily attributable to increase in investments in affiliates regarding acquisition of three shopping centers in Europe (as aforementioned) and from an asset in the USA which during the report period 11% of his rights were sold and presented as investment in affiliate compared to previous years in which the asset was proportionally consolidated (see transactions in the USA chapter aforementioned).

Yielding assets

Total yielding assets as of the balance sheet date amounted to US\$ 1,938. million as compared with US\$ 1,972 million on December 31, 2008. The decrease in the company's yielding assets in primarily attributable to the classification of investment available for sale to the current assets section and from an asset in the USA which during the report period exited from consolidation and presented as investment in affiliate. The decrease was partly compensated by the strengthening of the exchange rates relating the Shekel in the report period as 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\$ 449 million.

Current liabilities

Total current liabilities as of the balance sheet date amounted to US\$ 246 million as compared with US\$ 216 million on December 31, 2008. The increase is primarily attributable to the allocation of a loan which, in previous periods, was included in long-term liabilities, to current liabilities and from short-term loans the company took. 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\$ 1,773 million as compared with US\$ 1,799 million on December 31, 2008. The decrease in the liabilities is mainly attributed to classification of loan-term loans to current liabilities, from an asset in the USA which during the report period exited from consolidation and from investments available for sale presented in the current assets section in their net value (assets net of liabilities).

As of the balance sheet date the bank loans, which amounted to US\$ 1,412 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\$ 331 million. These are non-recourse loans.

Shareholders' equity

The Company's shareholders' equity at the balance sheet date was US\$ 309 million compared with US\$ 287 million at the end of 2008. The increase is primarily attributable to capital reserves from translation differences arising from foreign operations and other reserves totalling US\$ 18.3 million (mainly as a result of the strengthening of the currencies in relation to the shekel in countries in which the Company operates, as noted above) and from the profit for the period amounting \$ 3.6 million.

For a further summary, see the statement of changes in shareholders' equity in the financial statements.

C. Results of operations

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

	2009	2008			
	Quarter	Quarter	Quarter	Quarter	Quarter
	1-3/09	10-12/08	7-9/08	4-6/08	1-3/08
Revenues from rental fees, management fees, and other	44,645	45,289	45,907	47,205	48,354
Adjustment of fair value and results of disposal of yielding properties and others, net	(1,184)	(31,505)	(3,761)	(739)	1,723
Company's share in earnings (losses) of affiliates, net	(411)	(8,495)	50	1,115	1,027
Total revenues	43,050	5,289	42,196	47,581	51,104
Operating expenses and maintenance fees	14,013	14,052	13,898	13,867	14,278
General and administrative expenses	2,105	387	2,672	1,973	2,083
Financing expenses, net	22,102	21,903	20,005	29,859	26,408
Financing income in respect of revaluation of index-linked options	(5)	(358)	(411)	(866)	(1,330)
Total costs and expenses	38,215	35,984	36,164	44,833	41,439
Pre-tax income (loss)	4,835	(30,695)	6,032	2,748	9,665
Tax Expenses (Benefit)	1,236	1,935	2,909	(601)	1,009
Net income (loss)	3,599	(32,630)	3,123	3,349	8,656
Attributed to:					
The Company's shareholders	3,510	(32,524)	3,173	3,354	8,591
Minority interests	89	(106)	(50)	(5)	65
Net income (loss)	3,599	(32,630)	3,123	3,349	8,656

Revenues

Total revenues of the Company in the first quarter of 2009 (hereinafter, "the reporting period") amounted to \$43 million, compared with \$51 million in the corresponding period last year.

The company's revenues from rent, management fees and others in the reporting period amounted to \$44.7 million, compared with US\$ 48.5 million in the corresponding period last year. Most of the decrease attributed to an asset in Britain which was sold in the last quarter of 2008.

Financing expenses, net

In the reporting period, financing expenses (including revaluation of index-linked options) totaled US\$ 22.2 million, compared with US\$ 25.1 million in the corresponding period last year. The decrease is mainly attributed to an asset in Britain which was sold in the last quarter of 2008. In addition the Israeli CPI (known CPI) decreased in 0.7% during the period compared with an increase of 0.4% in the corresponding period last year which impacted the index-linked liabilities in Israel, and in some of the loans (changed interest) the interest rate in the report period was lower compared to the corresponding period last year. The financing expenses in the report period include US\$ 15.8 million for long-term loans taken from overseas financial institutions to finance yielding assets overseas. These loans are secured by a fixed lien on the buildings. The Company did not guarantee, nor did it furnish additional collateral for these loans.

Net income

The net income of the Company in the reporting period amounted to \$3.6 million, compared with net income of \$8.6 million in the corresponding period last year.

Cash flows

Cash flows used in operating activities

During the reporting period operating activities provided the Company with cash flows totalling US\$ 3.3 million, as compared with US\$ 5.7 million in the corresponding period last year. The decrease is mainly attributed from prepaid expenses payment which were paid during the report period on behalf of all 2009 and from paying currency differences due to the strengthening of the Dollar in two short-term dollar-linked loans which are financing assets in Israel.

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.

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 \$ 146 million. The Company has prepared for the repayment of its current liabilities in the following manner:

A. Liabilities to foreign financial institutions

- In the period ended March 31, 2010, the Company is expected to repay long-term debts to foreign financial institutions totalling \$ 66 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 \$ 106 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.

B. Liabilities to financial institutions in Israel

- During the report period the Company concluded an agreement with a financial institution in Israel relating to the extension of the repayment date of debts totalling \$ 51 million due to January 2010. As of the balance sheet date these amounts classified as current liabilities.
- The Group have short-time credit lines amounted to \$ 17 million secured by a fixed lien on a yielding asset in Israel.
- Regarding some of the loans, The company operates to repay them from self-sources and regarding some other loans, the company operates to extend their repayment date.

C. Unexploited credit line

- As of the balance sheet date, the company has long-term credit lines that not yet used totaling \$ 29 million, and short-term credit lines totaling \$ 21 million.

D. Sale of assets

- During the report period, the company signed a principles document to sale her rights in three assets in Israel. After the report period the company came to an agreement with the buyers that the transaction will include a sale of only two assets. The expected cash flow (gross before tax) regarding the sale of the two assets and after repaying their loans is \$ 15 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. Current cash flow

- The Company has allocated loans regarding Non-recourse loans received to finance asset abroad amounted to \$ 14 million, which due to repayment from the current cash flow of hose assets.

F. Bonds

- As of the balance sheet date, the Company has a liability to bondholders in an aggregate total of \$ 101 million.
- Out of the abovementioned liabilities to bondholders, as of the date of the publication of the report, a total of \$ 16 million is for repayment between August and October 2009, and a total of \$ 17 million is for repayment in 2010. The rest a total of \$ 68 million is for repayment till April 2019.

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 first quarter of 2009 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. 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.

E. Events after the balance period

In the period between the balance sheet date (March 31, 2009) and the publication date of the financial statements for the year of 2008 (May 20, 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 March 31, 2009 and May 17, 2009)

Currency	Rate's Change (in %):
US Dollar	- 1.0%
Euro	+ 0.9%
Pound Sterling	+ 5.1%
Swiss Franc	+ 1.8%
Canadian Dollar	+ 5.8%

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 + 3%. 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 (June 30, 2009).

F. 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.

G. Accounting estimates

See Report of the Board of Directors as of December 31, 2008.

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

The Board of Directors is responsible for the overall control in the Company. The Board of Directors appoints 6 members. The minimum number of directors with accounting and financial expertise is 1. Of the members of the Board of Directors, two directors who have accounting and financial expertise serve. A draft of the financial statements and the report of the Board of Directors are sent for the review of the directors a few days before the meeting of the Board of Directors. The directors are invited to refer at any time to the Company's Chief Executive Officer and Chief Financial Officer on any question or any clarification required, prior to the meeting. The meeting is attended by the Chief Executive Officer, the Chief Financial Officer, the Business Development Manager and the external auditor. In the course of the Board of Directors meeting, the Company's financial results are reviewed, comparisons between the reported periods and corresponding periods are presented, and changes that have taken place as a result of implementing new standard are described by the Chief Executive Officer, Chief Financial Officer and external auditor. In the course of the discussion, questions are posed to the external auditor relating to principal accounting issues arising from the financial statements and he is asked to present to the Board of Directors fundamental issues that arise during the audit work. The submission of questions regarding the financial statements and the answers provided is given as much time as is necessary. At the end of discussions and after it has been clarified that the financial statements reflect fairly the Company's financial and results of operations, a vote is taken to approve the financial statements.

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

May 20, 2009

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

At your request, we have reviewed the condensed interim consolidated balance sheet of **Electra Real Estate Ltd.** and its subsidiaries (hereinafter - "the Group") at March 31, 2009, and the related condensed interim consolidated statements of operations, comprehensive income (loss) statement, changes in shareholders' equity and cash flows for the three months period then ended (in the Hebrew language, not included herein) and have issued our accountants review report thereon dated May 20, 2009.

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

As noted in our aforementioned review report, we were furnished review reports of other accountants concerning the review of interim financial statements of consolidated subsidiaries whose assets constitute 82% of the total consolidated balance at March 31, 2009 and revenues 81% of the total consolidated revenues, for the three months period then ended. We did not review the financial statements of affiliates companies, in which the Company's investment as of March 31, 2009 amounted to \$105 millions and the Company's share in their results amounted to \$836 thousand for the three months 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 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, 2009. Comparative figures for the three months period ended March 31, 2008 and for the year ended December 31, 2008 represent a translation of the original NIS values of the respective period, using the representative dollar exchange rate in effect on March 31, 2009. 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 Zohar & Co.
Certified Public Accountants

Tel-Aviv, May 20, 2009

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

	<u>March 31,</u>		<u>December 31,</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>In thousands</u>		<u>In thousands</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
ASSETS			
<u>Current assets</u>			
Cash and cash equivalents	60,383	108,388	67,736
Short-term deposits	5,406	17,251	12,676
Marketable securities	1,895	2,887	2,693
Trade accounts receivable	4,904	7,005	4,231
Current tax assets	1,008	1,931	840
Receivables and other current assets	11,043	12,020	5,757
Investments intended for disposal (Note 4)	15,043	-	-
	<u>99,682</u>	<u>149,482</u>	<u>93,933</u>
<u>Non current assets</u>			
Investments in affiliates	195,097	154,677	156,251
Loans and long-term receivables	33,828	26,092	21,056
Fixed assets	248	509	256
Inventory of land	22,992	14,989	22,681
Other financial investment	37,737	67,546	34,939
Deferred income taxes	1,435	465	1,717
	<u>291,337</u>	<u>264,278</u>	<u>236,900</u>
<u>Yielding assets in -</u>			
Europe	1,335,818	1,376,947	1,274,338
North America	434,131	523,215	489,921
Israel	131,940	168,076	174,482
Britain	36,066	184,207	33,392
	<u>1,937,955</u>	<u>2,252,445</u>	<u>1,972,133</u>
Total Assets	<u>2,328,974</u>	<u>2,666,205</u>	<u>2,302,966</u>

The accompanying notes are an integral part of the financial statements

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

	<u>March 31,</u>		<u>December 31,</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>In thousands</u>		<u>In thousands</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
LIABILITIES AND EQUITY			
<u>Current liabilities</u>			
Bank borrowings (including loans and bonds current maturities)	186,111	138,768	156,157
Current tax liabilities	3,566	3,074	3,590
Trade accounts payable	4,689	2,090	2,772
Payables and other current liabilities	51,732	66,633	53,340
	<u>246,098</u>	<u>210,565</u>	<u>215,859</u>
<u>Non current liabilities</u>			
Debentures	85,356	111,579	85,994
Long-term loans to finance development projects	13,582	13,546	14,977
Liabilities in respect of index-linked options	25	1,666	30
Loans from Electra Group companies	20,159	20,182	18,647
Loans from shareholders in subsidiaries	2,624	2,462	2,411
Employee benefit liability	762	538	653
Other long-term liabilities	28,159	23,112	27,582
Deferred income taxes	73,183	74,996	72,123
	<u>223,850</u>	<u>248,081</u>	<u>222,417</u>
Loans for financing investments and yielding assets and other financial investments:			
Europe	1,160,800	1,214,830	1,115,971
North America	309,086	414,560	380,482
Israel	40,793	31,596	42,351
Britain	38,789	182,818	38,330
	<u>1,549,468</u>	<u>1,843,804</u>	<u>1,577,134</u>
<u>Equity</u>			
Ordinary Share Capital 0.0001 NIS Net Value	1	1	1
Share premium	122,524	122,524	122,524
Capital reserves	(36,059)	(10,011)	(54,286)
Retained earnings	217,913	245,103	214,403
Equity attributable to the Company's shareholders	<u>304,379</u>	<u>357,617</u>	<u>282,642</u>
Minority interests	5,179	6,138	4,914
Total equity	<u>309,558</u>	<u>363,755</u>	<u>287,556</u>
Total Liabilities and Equity	<u>2,328,974</u>	<u>2,666,205</u>	<u>2,302,966</u>

May 20, 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**

	Three months period ended March 31,		Year ended December 31,
	2009	2008	2008
	In thousands		
	(Unaudited)		(Audited)
Revenues			
Rental fees, management fees and others	44,645	48,354	186,755
Adjustment of fair value, results of disposal of yielding properties and others, net	(1,184)	1,723	(34,282)
Company's share in results of affiliates, net	(411)	1,027	(6,303)
Total revenues	43,050	51,104	146,170
Costs and Expenses			
Operating expenses and maintenance fees	14,013	14,278	56,095
General and administrative expenses	2,105	2,083	7,115
Financing expenses	25,043	27,398	113,436
Financing income	(2,941)	(990)	(15,261)
Revaluation of liabilities in respect of index-linked options	(5)	(1,330)	(2,965)
Total costs and expenses	38,215	41,439	158,420
Pre-tax income (loss)	4,835	9,665	(12,250)
Tax Expenses	1,236	1,009	5,252
Net income (loss) for the period	3,599	8,656	(17,502)
Attributable to:			
The Company's shareholders	3,510	8,591	(17,406)
Minority interest	89	65	(96)
Net income (loss) for the period	3,599	8,656	(17,502)
Earnings (Loss) per share (in dollars) attributed to the Mother Company's shareholders:			
Basic	0.13	0.33	(0.66)
Diluted	0.13	0.27	(0.66)
Weighted average number of ordinary shares used in the calculation of earnings (loss) per share (in thousands):			
Basic	26,265	26,265	26,265
Diluted	26,265	26,602	26,265

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
CONVENIENCE TRANSLATION INTO U.S. DOLLARS

	Three months period		Year ended
	ended March 31,		December 31,
	2009	2008	2008
	In thousands		
	(Unaudited)		(Audited)
Net income (loss) for the period	3,599	8,656	(17,502)
Other comprehensive income (loss)			
Profit (loss) due to remeasuring of available for sale assets, net tax	1,989	(9,700)	(39,102)
Loss due to cash flow hedges, net tax	(481)	(1,171)	(1,248)
Adjustments on the translation of financial statements of overseas activities	16,867	(17,199)	(33,212)
Other inclusive income (loss), net tax	<u>18,375</u>	<u>(28,070)</u>	<u>(73,562)</u>
Total other inclusive income (loss) for the period	<u>21,974</u>	<u>(19,414)</u>	<u>(91,064)</u>
Total other inclusive income (loss) for the period attributed to:			
The Company's shareholders	21,709	(19,128)	(89,554)
Minority interest	265	(286)	(1,510)
	<u>21,974</u>	<u>(19,414)</u>	<u>(91,064)</u>

The accompanying notes are an integral part of the financial statements

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

Three months ended March 31, 2009

	<u>Share Capital</u>	<u>Share premium</u>	<u>Capital reserve from revaluation of available for sale assets</u>	<u>Capital reserve from Share based Payments</u>	<u>Capital reserve from cash flow hedges</u>	<u>Capital reserve from foreign currency translation adjustment</u>	<u>Retained earnings</u>	<u>Total shareholder sequity</u>	<u>Minority Interests</u>	<u>Total equity</u>
	(In thousands)									
Balance - January 1, 2009	1	122,524	(23,726)	1,272	(771)	(31,061)	214,403	282,642	4,914	287,556
Net income for the priod	-	-	-	-	-	-	3,510	3,510	89	3,599
Profit due to revaluation of available for sale assets, net tax	-	-	1,989	-	-	-	-	1,989	-	1,989
Loss due to cash flow hedges, net tax	-	-	-	-	(481)	-	-	(481)	-	(481)
Adjustments on the translation of financial statements of overseas activities	-	-	-	-	-	16,691	-	16,691	176	16,867
Total profit (loss) for the period	<u>-</u>	<u>-</u>	<u>1,989</u>	<u>-</u>	<u>(481)</u>	<u>16,691</u>	<u>3,510</u>	<u>21,709</u>	<u>265</u>	<u>21,974</u>
Share-based payment	-	-	-	28	-	-	-	28	-	28
Total transactions with the company's share holders during their duty	<u>-</u>	<u>-</u>	<u>-</u>	<u>28</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28</u>	<u>-</u>	<u>28</u>
Total Equity – March 31, 2009	<u>1</u>	<u>122,524</u>	<u>(21,737)</u>	<u>1,300</u>	<u>(1,252)</u>	<u>(14,370)</u>	<u>217,913</u>	<u>304,379</u>	<u>5,179</u>	<u>309,558</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**

Three months ended March 31, 2008

	<u>Share Capital</u>	<u>Share premium</u>	<u>Capital reserve from revaluation of available for sale assets</u>	<u>Capital reserve from Share based Payments</u>	<u>Capital reserve from cash flow hedges</u>	<u>Capital reserve from foreign currency translation adjustment</u>	<u>Retained earnings</u>	<u>Total shareholder equity</u>	<u>Minority Interests</u>	<u>Total equity</u>
	(In thousands)									
Balance - January 1, 2008	1	122,524	15,376	1,067	477	737	236,512	376,694	6,424	383,118
Net income for the period	-	-	-	-	-	-	8,591	8,591	65	8,656
Loss due to revaluation of available for sale assets, net tax	-	-	(9,700)	-	-	-	-	(9,700)	-	(9,700)
Loss due to cash flow hedges, net tax	-	-	-	-	(1,171)	-	-	(1,171)	-	(1,171)
Adjustments on the translation of financial statements of overseas activities	-	-	-	-	-	(16,848)	-	(16,848)	(351)	(17,199)
Total profit (loss) for the period	<u>-</u>	<u>-</u>	<u>(9,700)</u>	<u>-</u>	<u>(1,171)</u>	<u>(16,848)</u>	<u>8,591</u>	<u>(19,128)</u>	<u>(286)</u>	<u>(19,414)</u>
Share-based payment	-	-	-	51	-	-	-	51	-	51
Total transactions with the company's share holders during their duty	<u>-</u>	<u>-</u>	<u>-</u>	<u>51</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51</u>	<u>-</u>	<u>51</u>
Total Equity – March 31, 2008	<u>1</u>	<u>122,524</u>	<u>5,676</u>	<u>1,118</u>	<u>(694)</u>	<u>(16,111)</u>	<u>245,103</u>	<u>357,617</u>	<u>6,138</u>	<u>363,755</u>

The accompanying notes are an integral part of the financial statements

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

Year Ended December 31, 2008

	Share Capital	Share premium	Capital reserve from revaluation of available for sale assets	Capital reserve from Share based Payments	Capital reserve from cash flow hedges	Capital reserve from foreign currency translation adjustment	Retained earnings	Total shareholder sequity	Minority Interests	Total equity
	(In thousands)									
Balance - January 1, 2008	1	122,524	15,376	1,067	477	737	236,512	376,694	6,424	383,118
Loss for the priod	-	-	-	-	-	-	(17,406)	(17,406)	(96)	(17,502)
Loss due to revaluation of available for sale assets, net tax	-	-	(39,102)	-	-	-	-	(39,102)	-	(39,102)
Loss due to cash flow hedges	-	-	-	-	(1,248)	-	-	(1,248)	-	(1,248)
Adjustments on the translation of financial statements of overseas activities, net	-	-	-	-	-	(31,798)	-	(31,798)	(1,414)	(33,212)
Total loss for the period	-	-	(39,102)	-	(1,248)	(31,798)	(17,406)	(89,554)	(1,510)	(91,064)
Dividend paid to minority	-	-	-	-	-	-	(4,703)	(4,703)	-	(4,703)
Share-based payment	-	-	-	205	-	-	-	205	-	205
Total transactions with the company's share holders during their duty	-	-	-	205	-	-	(4,703)	(4,498)	-	(4,498)
Total Equity – December 31, 2008	1	122,524	(23,726)	1,272	(771)	(31,061)	214,403	282,642	4,914	287,556

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**

	Three months period		Year ended
	ended March 31,		December 31,
	2009	2008	2008
	In thousands		
	(Unaudited)		(Audited)
Cash Flow - Operating Activities:			
Net income (loss) for the period	3,599	8,656	(17,502)
Adjustments required to present cash flows from operating activities (Appendix A)	(250)	(2,919)	39,575
Net cash - operating activities	<u>3,349</u>	<u>5,737</u>	<u>22,073</u>
Cash Flows - Investing Activities:			
Proceeds from the sale (invest) of marketable securities, net	693	(160)	(14)
Collection (Giving) of Long-term loans	(4,143)	(590)	13
Collection (Giving) of Long-term debts including from affiliates	-	303	-
Consolidation exit of investees that were proportionately consolidated (Appendix B)	(1,356)	-	(1,944)
Realization of short-term deposits	2,454	(4,043)	5
Change in long-term deposit, net	-	-	(2,466)
Investments in shares of affiliates and other	(6,343)	-	(10,181)
Initial consolidation of an affiliate (Appendix C)	-	(2,595)	(2,595)
Acquisition and construction of yielding assets	(10,584)	(5,117)	(50,937)
Acquisition of fixed assets and other assets	-	(125)	(133)
Proceeds from disposition of yielding properties	-	1,154	45,750
Net cash used in investing activities	<u>(19,279)</u>	<u>(11,173)</u>	<u>(22,502)</u>
Cash Flows - Financing Activities:			
Dividend paid	-	-	(4,703)
Receipt of long-term loans	5,896	23,076	73,859
Repayment of long-term loans	(7,857)	(24,683)	(58,750)
companies, net	-	(3,958)	(3,958)
Receipt (Repayment) of loans and capital notes from minority shareholders in consolidated subsidiaries, net	-	-	(165)
Repayment of bonds	-	-	(14,581)
Prepayment of bonds and long-term liabilities	(8,024)	-	(20,914)
Short-term bank borrowings, net	16,208	8,586	(10,056)
Net cash - financing activities	<u>6,223</u>	<u>3,021</u>	<u>(39,268)</u>
Increase (Decrease) in cash and cash equivalents	<u>(9,707)</u>	<u>(2,415)</u>	<u>(39,697)</u>
Cash and cash equivalents at beginning of period	<u>67,736</u>	<u>112,546</u>	<u>112,546</u>
Translation differences relating to cash balances in foreign currency	<u>2,354</u>	<u>(1,743)</u>	<u>(5,113)</u>
Cash and cash equivalents at end of period	<u>60,383</u>	<u>108,388</u>	<u>67,736</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**

	Three months period ended March 31,		Year ended December 31,
	2009	2008	2008
	In thousands		
	(Unaudited)	(Audited)	

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	411	(1,027)	3,492
Gain from prepayment of bonds and long-term liabilities	(2,476)	-	(13,365)
Depreciation and amortization	16	16	277
Adjustment of fair value and results of disposal of yielding properties, net	1,184	(1,502)	34,281
Loss from marketable securities	-	77	124
Recording of expenses in connection with share based payments	28	51	205
Revaluation of liabilities in respect of index-linked options	(5)	(1,330)	(2,965)

Changes in assets and liabilities:

Trade accounts receivables	(830)	89	531
Trade accounts payables	(3,818)	(2,951)	1,318
Receivables and other current assets	1,948	(680)	184
Payables and other current liabilities	3,483	4,544	2,697
Deferred income taxes, net	403	(464)	2,765
Change in value of long-term receivables and liabilities, net (including interest charged to the parent company)	(594)	258	10,031
	(250)	(2,919)	39,575

Appendix B - Consolidation exit of investees that were proportionately consolidated

Net working capital (excluding cash)	(44,203)	-	222
Long-term receivables	(1,525)	-	5,564
Yielding assets, net	148,101	-	93,634
Long-term liabilities	(83,220)	-	(104,016)
Investment in affiliates	(20,356)	-	-
Gain (Loss) from investments realization	(153)	-	2,652
	(1,356)	-	(1,944)

Appendix C - Initial consolidation of an affiliate

Net working capital (excluding cash)	-	9,172	9,172
Fixed assets and other assets	-	-	-
Long-term receivables	-	(1,057)	(1,057)
Yielding assets, net	-	(14,004)	(14,004)
Investment in affiliates	-	2,417	2,417
Long-term liabilities	-	877	877
	-	(2,595)	(2,595)

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**

	Three months period ended March 31,		Year ended December 31,
	2009	2008	2008
	In thousands		
	(Unaudited)	(Audited)	
<u>Appendix D – Additional cash flow information</u>			
Cash paid during the period:			
Interest	24,602	29,839	107,581
Income taxes	290	98	703
Cash received during the period:			
Interest	66	731	2,073
Income taxes	-	-	40
<u>Appendix E – Non-cash transactions</u>			
Purchase of yielding property on credit	-	1,384	1,563

The accompanying notes are an integral part of the financial statements

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

Note 1 - General

A. Electra Real Estate Ltd. (hereinafter – "the Company") was founded on May 15, 1972, 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.
The company held by Electra Ltd (former: Electra Israel Ltd, hereinafter – "The parent company", "Electra") and the final company that holds the company is Elco Holdings Ltd.
Additional information of the group's segmental activities is presented in note 3.

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 \$ 146 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 foreign financial institutions

- In the period ended March 31, 2010, the Company is expected to repay long-term debts to foreign financial institutions totalling \$ 66 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 \$ 106 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.

b. Liabilities to financial institutions in Israel

- The Group have short-time credit lines amounted to \$ 17 million secured by a fixed lien on a yielding asset in Israel.
- Regarding some of the loans, The company operates to repay them from self-sources and regarding some other loans, the company operates to extend their repayment date.
- During the report period the Company concluded an agreement with a financial institution in Israel relating to the extension of the repayment date of debts totalling \$ 51 million due to January 2010. As of the balance sheet date these amounts classified as current liabilities.

c. Unexploited credit line

- As of the balance sheet date, the company has long-term credit lines that not yet used totaling \$ 29 million, and short-term credit lines totaling \$ 21 million.

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

Note 1 - General (Cont.)

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

d. Sale of assets

- According to a principles agreement sign on February 22, 2009, between the company and Amot Investments Ltd. (hereinafter – Amot), in which the company will sale to Amot its full rights the jointly-controlled companies as detailed below:

1. 49% from Ziviel Investments Ltd. Shares (hereinafter – Ziviel).
2. 50% from Roni do Investments Ltd. Shares.

After the report period the company came to an agreements with Amot regarding the rights sale as mentioned above.

Following those agreements with Amot, the company classified these rights to the current assets group as investment available for sale. The expected cash flow (gross before tax) regarding the sale of the two assets and after repaying their loans is \$ 15 million.

- The Company intends to sell a number of properties, 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. Current cash flow

- The Company has allocated loans regarding Non-recourse loans received to finance asset abroad amounted to \$ 14 million, which due to repayment from the current cash flow of hose assets.

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.

- C.** These condensed financial statements should be reviewed in conjunction with the Company's annual statements as of December 31, 2008 and for the year then ended and the notes related thereto.
- D.** 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 March 31 ,2009 (\$1.00= NIS 4.188).

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 March, 31 ,2009. Comparative figures for the three months ended March 31, 2008 and for the year ended December 31, 2008 represent a translation of the original NIS values of the respective period, using the representative dollar exchange rate in effect on March 31 ,2009. 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

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

Note 2 - Reporting principles and accounting policies

A. Basis for the financial statements editing

The interim condensed consolidated financial statements ("interim financial statements") of the Company have been prepared in conformity with International Accounting Standard No. 34 "interim financial reporting" (hereinafter-"IAS 34").

In conducting these interim financial statements, the Group implemented accounting policy, reporting standards and measurement methods identical to those implemented in conduction of her financial statements as of December 31, 2008, and for the year then ended, excluding the changes in the accounting policy derived from the implementation of new financial reporting standards, amendments to reporting standards and clarification published which forced in the financial statements date as detailed in paragraph c below.

- B.** The interim consolidated financial statements of the Company have been prepared in conformity with the Securities Regulations (Periodic and Immediate Reports), 1970.

Statement regarding the implementation of International Financial Reporting Standards

The consolidated financial statements of the Company have been prepared in conformity with International Financial Reporting Standards and their interpretations published by IASB. The principal accounting policies have been applied in these statements on a basis consistent with those applied in comparison years presented in these statements.

C. New financial reporting standards and clarifications that have been issued:

(1) New effective standards and clarifications which are being applied in these financial statements:

- **Amendment IFRS 2 – Share based payments - terms for vesting and cancellations**

The amendment defines which terms for vesting should be included when stating the share based payment fair value in the grant date. Further explain the accounting treatment relating instruments with no vesting terms and cancellations.

The standard is to be implemented retrospectively in respect of the financial statements for periods commencing on January 1, 2009.

This amendment will not have any material effect on the company's financial reports.

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

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

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

This amendment will not have any material effect on the company's financial reports.

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

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

C. New financial reporting standards and clarifications that have been issued: (Cont.)

(1) New effective standards and clarifications which are being applied in these financial statements: (Cont.)

- **IFRIC 15 - Agreements for the Construction of Real Estate**

The Interpretation provides the accounting treatment in accompanying incomes and expenses of entities which independently or through sub-contractor establishing real estate and supplying goods or services which is included in establishing real estate agreement.

The Interpretation establishes rules for distinguishing between agreements for the construction of real estate under the scope of IAS 11 and similar agreements under the scope of IAS 18. Accordingly, revenue will be recognized by reference to the stage of completion. Incomes from agreements, which according to the interpretation constitutes supplying goods agreements will be recognized in the risk and benefit transfer date to the buyer, and incomes from supplying services agreements will be recognized according to the completion date of the transaction in the balance sheet date. The Interpretation applies to annual financial statements for periods beginning on or after January 1, 2009 and will be adopted retrospectively. Earlier application is permitted.

This Interpretation will not have any material effect on the company's financial reports.

- **IFRIC 16, Hedges of a Net Investment in a Foreign Operation:**

The Interpretation provides the hedged risk nature and the hedged item amount during the net investment hedge in foreign activities. The Interpretation also prescribes that the hedging instrument may be held by any entity within the Group and the amount level that will be classified from the equity to the statement of operations while realizing the foreign activity, which regarding her the net investment in foreign companies hedge accounting was implemented.

The Interpretation applies to annual financial statements for periods beginning on or after January 1, 2009.

This Interpretation will not have any material effect on the company's financial reports.

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

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

C. New financial reporting standards and clarifications that have been issued: (Cont.)

(1) New effective standards and clarifications which are being applied in these financial statements: (Cont.)

• **IAS 1 (Amended), Presentation of Financial Statements**

The standard stipulates the presentation required in the financial statements, and itemizes a general framework for the structure of the financial statements and the minimal contents which must be included in the context of the report. Changes have been made to the existing presentation format of the financial statements, and the presentation and disclosure requirements for the financial statements have been broadened, including the presentation of an additional report in the framework of the financial statements called "statement of comprehensive income (loss)" and the addition of balance sheet to the beginning of the earliest period presented in the financial statements and in cases of change in accounting policy in the way of retrospective application, restatements cases and reclassification cases. The amendment applies to annual financial statements for periods beginning on or after January 1, 2009 and will be adopted retrospectively. According to this standard, the Group present comprehensive income (loss) statements report, which details the components of the other comprehensive income (loss) separately from the components presented in the statement of operations report and statement of changes in equity report presenting balances regarding transactions with shareholders, while in their duty as shareholders. The initial adoptions of this standard has no effect on the company's financial reports.

• **IFRS 8, Operating segments**

The standard, which replaces IAS 14, details how an entity must report on data according to segments. Among other things, the standard prescribes that the segmental reporting of a company is based upon the data which is used by the management of a company for purposes of assessing the performance of the segments, and for purposes of making decisions on the manner of allotment of resources to the various operating segments.

The standard will apply for annual reporting periods beginning on January 1, 2009, with retroactive adjustment of comparative figures for previous reporting periods. The initial adoptions of this standard has no effect on the company's financial reports. Regarding the Group's operating segments report according to IFRS 8, see note 3.

• **Amendment to IAS 28, Investments in affiliates**

The amendment provides that a decline in the value of an investment in an affiliate should be dealt with as a decline in value of a single asset, and that the amount of the decline in value may be cancelled in subsequent periods. The amendment will apply in respect of annual periods commencing January 1, 2009,. This amendment will not have any effect on the company's financial reports.

• **Amendment to IAS 40, Investment property**

The amendment provides that investment property under construction should be dealt with in accordance with the provisions of IAS 40. Prior to the amendment, the aforesaid investment property was dealt with pursuant to IAS 16 "Fixed assets". The amendment will apply in respect of annual periods commencing January 1, 2009. Implementation will be by prospective application. This amendment will not have any effect on the company's financial reports.

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

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

C. New financial reporting standards and clarifications that have been issued: (Cont.)

(2) Standards and clarifications issued by IASB and IFRIC, respectively, that have been published but have not yet become effective

A. IFRIC 17 - Distributions of non-cash assets to owners

The interpretation sets the accounting treatment of non-cash asset distribution to owners. The interpretation set, inter alia, the initial recognition date of liability to distribute non-cash assets to the entity's owners, and the measurement method of the liability amount up to its payoff.

Moreover, the interpretation repairs IFRS 5 instructions "Non-current assets held for sale and discontinued activities". Non-current asset (or realization group) which the entity obligated to distribute it to the shareholders as non-cash assets, will be classified subject to this interpretation, as held for distribution to owners.

The Interpretation applies to annual financial statements for periods beginning on or after January 1, 2009. Early adoptions is possible.

At this stage, the group's management can not estimate the effect of this interpretation on the company's financial reports.

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

The amendment provides that when a parent company is obliged to implement a plan for the sale of the controlling rights of a subsidiary, the assets and liabilities therein should be classified as held for sale, even when it intends to retain rights that do not give it control.

The amendment will be in effect in respect of reporting periods commencing January 1, 2010. The amendment allows for early application. An entity that is interested on applying the standards in prior periods is obliged to implement the provisions of IAS 27 (amended). Implementation will be by prospective application.

At this stage, the group's management can not estimate the effect of this amendment on the company's financial reports.

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

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

C. New financial reporting standards and clarifications that have been issued: (Cont.)

(2) Standards and clarifications issued by IASB and IFRIC, respectively, that have been published but have not yet become effective (Cont.)

C. IAS 27 (Amended), Consolidated and Separate Financial Statements

The standard prescribes the rules for the accounting treatment of consolidated and separate financial statements. Among other things, the standard stipulates that transactions with minority shareholders, in the context of which the company holds control of the subsidiary before and after the transaction, will be treated as capital transactions. In the context of transactions, subsequent to which the company loses control in the subsidiary, the remaining investment is to be measured as of the date that control is lost, at fair value, with the difference as compared to book value to be recorded to the statement of operations. The minority interest in the losses of a subsidiary, which exceed its share in shareholders' equity, will be allocated to it in every case, while ignoring its obligations and ability to make additional investments in the subsidiary.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2010 and thereafter. Earlier adoption is permitted, on the condition that it will be done simultaneously with early adoption of IFRS 3 (amended). The standard will be implemented retrospectively, excluding a number of exceptions, as to which the provisions of the standard will be implemented prospectively.

At this stage, the group's management can not estimate the effect of this standard on the company's financial reports.

D. IFRS 3 (Amended), Business combinations

The new standard sets the accounting treatment rules regarding , inter alia the standard sets measuring rules of conditional proceeds from business combinations, which will be measured as derivative financial instrument. Transactions costs, linked directly to the business combination will be attributed to the statement of operations at the date it occurred. Minority rights will be measured on the business combination date to the extent of their share in the assets' fair value, including goodwill, liabilities and contingent liabilities of the purchased entity, or to the extent of their share in the net assets' fair value as mentioned, excluding their share in the goodwill.

In business transactions, in which control is obtained after several acquisitions (purchase by steps), the assets , liabilities and contingent liabilities of the entity will be measured at fair value in the date which the control had been obtained, while attributing the difference between the book value of the investment to its fair value at the business combination date to the statement of operations.

The standard apply to business combinations start on January 1, 2010 and thereafter. Earlier adoption is permitted, on the condition that it will be done simultaneously with early adoption of IAS 27 (amended).

At this stage, the group's management can not estimate the effect of this standard on the company's financial reports.

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

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

C. New financial reporting standards and clarifications that have been issued: (Cont.)

(2) Standards and clarifications issued by IASB and IFRIC, respectively, that have been published but have not yet become effective (Cont.)

E. IFRS 7 Amendment, Financial instruments: Recognition

The amendment broadens the recognitions required relating liquidity risk and fair value measurement, while setting three stage hierarchy for presenting fair value measurements.

The amendment apply to annual financial reporting periods which start on January 1, 2009 and thereafter. The amendment will be implemented retrospectively. Earlier adoption is permitted.

This company evaluating the amendment effect on the company's financial reports.

F. IFRIC 9 Amendment, Reassessment of Embedded Derivatives and IAS 39, Financial instruments: Measurement Disclosures

The amendment clarify that while reclassifying a financial asset outside of "Fair value through the statement of operations" group, the need to separate its embedded derivatives will be examined.

The amendment apply to annual financial reporting periods which start on June 30, 2009 and thereafter. The amendment will be implemented retrospectively. Earlier adoption is permitted.

The group's management estimates that this amendment will not have any effect on the company's financial reports.

G. IFRS 8 amendment, operating segments

The amendment sets that a recognition of reportable segment asset measurement will be presented only if this information is presented repeatedly to the head operational decision maker.

The amendment apply to annual financial reporting periods which start on January 1, 2010 and thereafter. Earlier adoption is permitted.

The group's management estimates that this amendment will not have any effect on the company's financial reports.

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

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

D. Exchange rates and linkage

- (1) Assets and liabilities in, or linked to, foreign currency are presented at the representative rates of exchange published by the Bank of Israel as of the balance sheet date.
- (2) Assets and liabilities linked to the CPI are presented according to the known CPI in the balance sheet date (the CPI of the one month prior to the balance sheet date) or according to the actual CPI on behalf of the last month of the reporting period (the CPI of the month of the reporting period), and according to the employment terms.
- (3) Following are details on the exchange rates and CPI:

	March 31,		December 31,
	2009	2008	2008
Actual CPI (1993 basis)	198.15	191.33	198.42
Known CPI (1993 basis)	197.17	190.77	198.61
<u>In NIS:</u>			
US Dollar	4.19	3.55	3.80
Pound Sterling	5.99	7.06	5.55
Canadian Dollar	3.34	3.48	3.11
Euro	5.57	5.62	5.30
Swiss Franc	3.68	3.58	3.56
		Three months	Year ended
		ended March 31,	December 31,
		2009	2008
		2009	2008

Change in exchange rate during the period then ended (in %):

Actual CPI	(0.14)	0.09	3.80
Known CPI	(0.72)	0.39	4.51
US Dollar	10.15	(7.62)	(1.14)
Pound Sterling	8.01	(8.39)	(28.04)
Canadian dollar	7.34	(11.20)	(20.60)
Euro	5.22	(0.75)	(6.41)
Swiss Franc	3.14	4.59	4.23

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

Note 3 - Geographical segments

A. IFRS 8 "Operating segments"

The Group implementing IFRS 8 "operating segments" (hereinafter- "IFRS 8") as of January 1, 2009. The standard prescribes that the segmental reporting of a company is based upon the data which is used by the management of a company for purposes of assessing the performance of the segments, and for purposes of making decisions on the manner of allotment of resources to the various operating segments. The company's management evaluated the precepts of IFRS 8 and came to a conclusion that there is no effect on the reportable segments report, the statement of operation and the reported financial statement of the group's segments.

B. The Group's reportable segments are

The Group recognizes reportable segment on the geographical organizational basis.

Segment A – produce its incomes in Israel.

Segment B – produce its incomes in Europe (Germany, Britain, Switzerland, Holland and Belgium)

Segment C – produce its incomes in North America (USA and Canada)

Because of the company's nature of business, the segments results are after financial expenses and including gains from assets realizations, and the segment liabilities includes identified financial liabilities to specific assets.

	<u>Israel</u>	<u>Europe</u>	<u>North America</u>	<u>Adjustments (4)</u>	<u>Total</u>
	<u>US\$ in thousands</u>				
Three months period ended March 31, 2009					
(Unaudited):					
Segment revenues from external clients (1)	4,021	20,994	18,035	-	43,050
Segment results from external clients	233	5,433	(305)	(526)	4,835
Including Adjustment of fair value, results of disposal of yielding properties and others, net (1)	1,401	(2,030)	(555)	-	(1,184)
Three months period ended March 31, 2008					
(Unaudited):					
Segment revenues from external clients (2)	2,763	29,024	19,317	-	51,104
Segment results from external clients	2,474	6,527	835	(171)	9,665
Including Adjustment of fair value, results of disposal of yielding properties and others, net (2)	(389)	4,408	(2,296)	-	1,723
Year ended December 31, 2008:					
Segment revenues from external clients (3)	7,973	79,629	58,568	-	146,170
Segment results from external clients	(837)	2,844	(12,166)	(2,091)	(12,250)
Including Adjustment of fair value, results of disposal of yielding properties and others, net (3)	(4,842)	(15,544)	(13,896)	-	(34,282)

(4) Representing mainly investment in india

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

Note 4 - Investments held for disposal

According to a principles agreement sign on February 22, 2009, between the company and Amot Investments Ltd. (hereinafter – Amot), in which the company will sale to Amot its full rights the jointly-controlled companies as detailed below:

1. 49% from Ziviel Investments Ltd. Shares (hereinafter – Ziviel).
2. 50% from Roni do Investments Ltd. Shares.

After the report period the company came to an agreements with Amot regarding the rights sale as mentioned above.

Following those agreements with Amot, the company classified these rights to the current assets group as investment available for sale.

The expected cash flow (gross before tax) regarding the sale of the two assets and after repaying their loans is \$ 15 million. The company is not expected to recognize a significant profit from this sale since most of the profit recognized in previous periods under the fair value adjustment of the sold assets.

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

Note 5 - Significant events during the report period

- A.** On March 2009, Electech Inc sold 11% of her rights in an office building in Chicago, USA. After the sale the company's holding percentage in this asset is 49%. In the company's balance sheet as of March 31, 2009, the asset is classified as an investment in affiliate. The profit derived to the company in the report period from the rights' sale as aforesaid is non-material.
- B.** On March 2009, Electech Inc came to an agreement with HGI shareholders in which she will decreased in her holding percentage in HGI from 25% to 20%, in exchange to decreasing HGI shareholders' compensation amounted to \$ 4.875 million which supposed to be paid in July 2009. Further agreed that the company has an option, during the next five years beginning January 1, 2009, to raise the holding percentage in HGI back to 25% against a compensations amounted to \$ 4.875 million.
- C.** In accordance to a framework agreement signed by Electech, a foreign subsidiary of the company, in 2006 to acquire shopping centers leased to Hornbach chain and additional to four shopping centers which she is already owned, On January 2009, Electech acquired 45% of two shopping centers Hornbach, in Holland and one shopping center in Luxembourg.

The purchase price of all three assets (100%), before expenses amounting to € 62.2 million (approximately \$ 75 million), and relating expenses amounting to € 5.2 million (approximately \$ 6.3 million). The three shopping centers consists of 39,400 sq. mtrs. Leased area, are 100% occupied to Hornbach company which is one of the leading companies in the shopping center for DIY field. The rent period of each and everyone of the properties is 15 years, till January 2024. The renter has an option to extend the rent period.

The net annual rent fee (100%) from the three assets is € 4.63 million (approximately \$ 5.59 million). The rent fee has a mechanism to rent fee rise according to the customer price index. All current management and maintenance expenses regarding the assets are being paid by the renter.

A financial institution has extended five years loan to finance the transaction (100%) € 47.6 million (approximately \$ 57.4 million) with fixed interest, whose rate is 4.46%. The loan is secured by a first-priority fixed lien on the asset and receipts, without the right of recourse for the Company. In addition another financial institution has extended five years loan amounted to € 6.75 million (approximately \$ 8.1 million) with fixed interest, whose rate is 7%. The loan is secured by a second-priority fixed lien on the asset and receipts, without the right of recourse for the Company.

- D.** On February 2009, Electech acquired through a subsidiary a part of a loan granted to a jointly-controlled company (70%) of Electech from a foreign financial institute to buy assets in Germany and Holland in May 2007. The book value of the repaid loan (100%) is € 7 million (approximately \$ 9.3 million) against actual payment of € 4.2 million (approximately \$ 5.6 million) Regarding this acquisition the company included in the report period a profit before tax from the loan early repayment amounted to € 2 million (approximately \$ 2.6 million) in the "financial income" section in the statement of operation.