

ELECTRA REAL ESTATE LTD.

**UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2006

(CONVENIENCE TRANSLATION INTO U.S. DOLLARS)

ELECTRA REAL ESTATE LTD.

Contents

		<u>Page</u>
Report of the Board of Directors	For nine-month period ended September 30, 2006	1a-11
Accountants' review		2
Interim consolidated financial statements: (unaudited)		
Balance sheet	- September 30, 2006	3-4
Statement of operations	- Nine-month period ended September 30, 2006	5
Statement of changes in shareholders' equity	- Nine-month period ended September 30, 2006	6-8
Statement of cash flows	- Nine-month period ended September 30, 2006	9-10
Notes to the financial statements		11-26

ELECTRA REAL ESTATE LTD.

REPORT OF THE BOARD OF DIRECTORS AT SEPTEMBER 30, 2006 AND FOR THE NINE-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 September 30, 2006 and for the nine-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, 78 assets including 65 yielding assets and 13 assets in various stages of development and construction as well as 9.9% in 16 hotels across Britain, as follows:

<u>Country</u>	<u>Yielding assets</u>	<u>Nature of asset</u>
Israel	20	Yielding assets (including 5 assets under construction)
Britain	7 16	Yielding assets Hotels (Company's share- 9.9%)
Canada	10	Yielding assets
USA	9	Yielding assets (including one asset under construction)
Germany	24	Yielding assets (including three assets under construction)
Switzerland	5	Yielding assets (including three assets under construction)
Other countries in Europe	3	Assets (including one asset under construction)

Total area and average occupancy rates of yielding assets (including Company's share in assets of affiliates) – 700,000 sq. m. and 93%, respectively.

Activity in Israel

The Company holds seven 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 five assets under construction.

Foreign activity

Britain

On the balance-sheet date the Company held, through investees abroad, 6 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 £2.2m (Company's share), with the Company obliged to pay annual leasing fees of £0.35m in respect thereof. An additional building is held through an affiliate (49%) and is accounted for by the equity method. It is leased to two tenants for periods expiring in 2015 and 2028.

During the reported period the Company concluded a transaction for the sale of its entire holding (75%) in four properties in Britain at a pre-tax gain of \$1.1m pertaining to the entire 100% holding (Company's 75% share therein – \$ 837 thousand).

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 90% to 100% in lease contracts for periods which ends between 2006 and 2022. The yielding annual rental fees amounting to C\$31.5m, net after management and maintenance fees – C\$16.7m. In addition, the company holds two buildings at an ownership rate of 49% and is 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 (\$20.0m) 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 to the Canadian government (about 50%) in a lease expiring in October 2015 and to the insurance company Zurich (about 32%) in a lease expiring in January 2014.

The increment to the annual net rental fees stemming from the purchase of the additional 30% amounted to C\$1.4m (\$1.3m).

Following the recent meaningful increase in the property's value, the Company refinanced it by obtaining a 10-year loan of C\$57m (\$53.5m) 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.

Subsequent to the balance sheet date, a wholly-owned subsidiary purchased another 42% of the rights in a yielding property in Toronto, Canada, in which it holds 49% of the rights. Following the additional purchase, the subsidiary holds 91% of the rights in the property. In June 2004, the subsidiary purchased 49% of the property. The value of the property (100%) was C\$34.8m (\$30.7m). The additional 42% were purchased at a property value (100%) of C\$40m (\$35.3m).

The present purchase amount for the additional 42% is C\$16.8m (\$14.8m), in addition to related expenses of C\$0.35m (\$302 thousand). The property is two connected office buildings with total area of 21,850 sq. m.. The property is rented to different tenants for different periods. The current occupancy rate of the property is 99%. Presently, the gross annual rental fees (100%) are C\$6.1m (\$5.4m), and after reducing management and maintenance expenses, the net rental fees (100%) are C\$3.2m (\$2.8m).

Presently, the property (100%) is financed by a loan from a foreign bank in the amount of C\$25m (\$22.1m), at fixed interest of 6.16% for the period ending June 2009. 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 six 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, 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 - \$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.

In July 2006 a wholly owned subsidiary acquired 47% of the rights in a yielding asset in Louisville, Kentucky, USA at a cost (100%) of \$42.85m plus related expenses of \$1.0m. The asset, a 23-storey building, is located in the center of the city's business district and it consists of 26,750 sq. m. and 465 underground parking spaces. The asset is leased entirely to various tenants for different periods, with the major lessee (62%), E.ON.US, a gas company, having a lease expiring in July 2015. The building's present occupancy rate is 79%, with the gross annual rental fees (100%) amounting to \$5.55m net of management and maintenance fees - \$3.3m.

A US financial institution provided a 10-year loan of \$32m for financing the entire transaction at a fixed interest rate of 6.14%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

In September 2006, a wholly-owned subsidiary purchased 47% of the rights in a yielding property in Chicago, USA. The building, with a purchase cost (100%) of \$91.5m, plus related expenses of \$2.7m, is a 35-story office building located in the business center of Chicago, in the state of Illinois, USA. The net total leaseable area is 47,600 sq. m.. The building is leased to different tenants for different periods. The building's current occupancy rate is 91%. The annual gross rental fees (100%), amount to \$14.35m, and after reducing management and maintenance expenses, net rental fees are \$6.6m.

A USA financial institution provided a \$72m loan to finance the purchase, constituting 79% of the purchase price of the property, at fixed interest of 6.07% for 9 years. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

Germany and Switzerland

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in twenty buildings that are held at rates of 50% and 100% that yield annual rental fees of €21m.

An additional 3 properties held through affiliates at rate of 45% and yielding annual rental fees in which the Company's share amounts to €1.5m. In addition, the Company holds six properties under various construction stages.

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 (\$89.0m), plus related expenses totaling €6.5m (\$8.2m). The building is entirely leased to four tenants for various periods expiring between 2011 and 2015. Net annual rental fees (100%) amount to €5.5m (\$7.0m), 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 (\$80.4m), 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.

Subsequent to the balance sheet date, the property was refinanced. A financial institution in Germany provided a loan to finance the purchase of €75.5m (\$95.1m) for a 7-year period, at fixed interest of 5.35%. This 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 €14.5m (\$19.1m- 100%) plus an additional €0.5m (\$0.7m). The constructed three-storey, 8,800 sq. m.- building will consist of 400 parking spaces and be fully occupied by Dell Computers on a 10-year lease beginning with the end of the construction work (estimated completion date – January 2007). The annual net rental fees, which amount to €1.3m (\$1.7m – 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 (\$16.0m) for financing the entire project at annual interest of 5.2%, repayable in seven years following project completion. The loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

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 118,000 sq. m.. The transaction is estimated at a cost of €203.4m (\$268m – 100%), plus related expenses of €11.6m (\$15.3m). 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 (\$16.9m), 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 (\$70.0m), plus related expenses totaling €4.5m (\$5.9m). The net annual rental fees (based on a 100% occupancy rate) from the three malls amount to €3.5m (\$4.6m), with the Company's 45% share therein amounting to €1.5m (\$2.0m).

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 (\$240.6m) 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 (\$63.2m) 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

In May 2006 a subsidiary acquired 70% of the rights in a yielding asset in Switzerland at a cost of SFr 24.7m (\$20.5m), including related expenses. The asset, a five-storey building consists of 13,000 sq. m. and 50 underground parking spaces. It is leased entirely to Phillips Ltd. by a lease expiring in May 2011. The net annual rental fees (100%) amount to SFr 1.7m (\$1.4m), with all management and maintenance fees paid by the lessee. A foreign financial institution provided a five-year loan of SFr 19.3m (78%) (\$16.0m) for financing the entire transaction at a fixed interest rate of 4.05%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

In July, a foreign affiliate company, concluded a transaction for the sale of all the rights in seven yielding properties in Germany (west), presently leased to a subsidiary of Deutsch Telecom. The company ultimate share in these yielding properties is 40%.

The rights in the assets were sold for an amount reflecting a value (100%) of €334m (\$434.7m), including related expenses. The Company's share in the pre-tax gain stemming from this sale amounted to \$20.9m. These assets were revalued in December 2005 to €303m (\$394.5m), following which the Company recorded in 2005 a profit of \$8.6m while enjoying a cash flow of €18.2m (\$23.5m), net of invested shareholders' equity, bank-loan repayment and the rest of the related expenses. The affiliate prepares its financial statements in accordance with accepted accounting standards, including IAS 40, based on which a yielding asset is presented at fair value. Accordingly, the affiliate reported during the period a gain from these assets' appreciation based on the selling price. The gain from the above transaction is reflected in the Company's statement of operations for the six-month period ended June 30, 2006, as part of the revaluation that was based on the sales price.

In July 2006 a wholly owned subsidiary acquired 65% of the rights in a yielding property in Zurich, Switzerland at a (100%) cost of SFr 109m (\$91.2m), plus related expenses of SFr 4.8m (\$4.0m). The asset, a building of 30,800 sq. m. is used as the telecommunication center of Swisscom Ltd., the country's national telecom company and is entirely leased by a 20-year agreement expiring March 2026, with an option to renew it for a period of 15 years (until 2041). The gross annual rental fees (100%) amount to SFr 5.75m (\$4.8m) net of management and maintenance expenses. The management and maintenance fees, which are payable by the lessee, are 80% linked to the Swiss CPI at the beginning of every year.

A foreign financial institution provided a seven-year loan of SFr 98.1m (\$82.1m) for financing the entire transaction at a variable interest rate of 2.7%, with a CAP maximum of 4.35%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

In August 2006, a wholly-owned subsidiary of the Company purchased 50% of the rights in a portfolio comprised of six yielding properties in West Germany. In Frankfurt – a complex of 3 office buildings with total area of 16,000 sq. m., plus an adjacent parking garage with 125 covered parking spaces. In Düsseldorf – 2 adjacent commercial buildings with total area of 4,650 sq. m.. Bad Hamburg – a commercial center with total area of 6,500 sq. m. plus 150 parking spaces. The properties, with a purchase cost (100%) of €52.2m (\$68.5m), plus related expenses of €4.5m (\$5.9m). The properties are rented to different tenants for different periods. The main tenants in the portfolio are the German Government, the management of the Steigenberger Hotels chain, UBS, the Turkish bank Oyak Anker Bank and the Toom retail chain. The occupancy rate of the properties is 100%.

The net annual rental fees from the above properties (100%) is €3.9m (\$5.1m). All of the current management and maintenance fees are paid by the tenants. The rental fees are linked to the German consumer price index.

A foreign financial institutions provided a loan for a period of 7 years to finance the purchase (100%) in the amount of €42.65m (\$56m), constituting 82% of the purchase price of the properties, at fixed interest of 5.16%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

In September 2006, a wholly-owned subsidiary of the Company acquired 100% of the rights in an yielding property in Nierenberg in West Germany. The property, the purchase price of which (100%) was €93.875m (\$123.3m), plus related expenses of €1.8m (\$2.4m), is an office-building campus located in the city of Nierenberg in West Germany. The total area is 47,200 sq. m., plus an adjacent building containing 1,400 covered parking spaces. The building is rented in full to Lucent Technologies in a contract terminating in December 2014, with two options, each to extend the contract for 5 years.

The net annual rental fees (100%) are €7.6m (\$9.9m). The rental fees are linked in full to the consumer price index in Germany, every 3 years. All current management and maintenance expenses for the property are paid by the tenant.

Two foreign financial institutions provided loans for a period of 6.5 years, to finance the purchase (100%), in the total amount of €70.0m (\$91.9m), at fixed interest at the rate of 4.45%. The loans are secured in a first and second-level fixed lien on the property and the receipts of the property, on a non-recourse basis.

Additionally, another foreign financial institution provided a loan of €12.9m (\$16.9m) at variable interest, which is presently 5.20%, for a period of 6.5 years, with an exit fee of 24% of the gain to be created by the project when sold in the future. This loan is secured by a non-recourse fixed third-tier lien on the assets and its income.

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.

Subsequent to the balance sheet date, a wholly-owned foreign subsidiary sold its share in a foreign affiliated company in which it holds 33% of the shares. The foreign affiliated company owns a property in Poland under construction. The sale was effected in consideration for the repayment of shareholder loans and a payment for the shares. The consideration totaled \$0.95m. The Company did not have a gain on the sale.

B. Financial Position

Total balance-sheet assets on September 30, 2006 amounted to \$980.7m (December 31, 2005 – \$600.0m).

The net increase stems mainly from an investment in a yielding asset in Germany, Switzerland, USA and Canada.

Current assets

Current assets on September 30, 2006 totaled \$70.1m as compared with \$50.3m on December 31, 2005. Most of the increase is due to the private issuance of debentures (Series B) to institutional investors executed by the Company on September 18, 2006.

Long-term investments

Long-term investments on September 30, 2006 amounted to \$175.4m (December 31, 2005 – \$132.2m). The increase stems mainly from long term investment in US and Germany.

Yielding assets

Total yielding assets on September 30, 2006 amounted to \$732.8m as compared with \$410.9m on December 31, 2005. The increase stems mainly from an investment in a yielding asset in Germany, Switzerland and Canada.

Current liabilities

Total current liabilities on September 30, 2006 amounted to \$101.6m (December 31, 2005 – \$52.4m). Most of the increase is due to the increase in payables for the purchase of new yielding properties in Germany and Canada.

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 \$729.0m as compared with \$413.4m on December 31, 2005. The increase resulted mostly from loans obtained for investment in yielding assets in Germany, Switzerland, USA and Canada. On September 30, 2006 the bank loans, which amounted to \$493.7m, 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 \$132.9m (December 31, 2005 – \$133.0m). (See statement of changes in shareholders' equity).

C. Results of operations

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

	<u>Quarter 7-9/06</u>	<u>Quarter 4-6/06</u>	<u>Quarter 1-3/06</u>	<u>Quarter 10-12/05</u>	<u>Quarter 7-9/05</u>
Revenues	17,558	15,875	14,886	13,281	13,292
Company's share in earnings of affiliates, net	7,479	11,938	1,790	8,894	1,633
Gain from sales of assets and investment	-	835	-	11,943	267
Total revenues	25,037	28,648	16,676	34,118	15,192
Operating expenses	10,340	9,844	8,396	11,596	6,811
Financing expenses, net	6,886	7,120	4,889	4,891	5,168
	17,226	16,964	13,285	16,487	11,979
Pre-tax income	7,811	11,684	3,391	17,631	3,213
Income taxes	373	222	545	2,431	(188)
Income after taxes on income	7,438	11,462	2,846	15,200	3,401
Minority interest in the results, net	(37)	58	(39)	53	(110)
Net income	<u>7,401</u>	<u>11,520</u>	<u>2,807</u>	<u>15,253</u>	<u>3,291</u>

Revenues

Revenues and affiliates' earnings in the third quarter of 2006 amounted to \$25m compared with \$14.9m in the same quarter last year, an increase of 68%.

The Company's third quarter income from affiliated companies includes revenues of \$1.9m resulting from the early termination of the rental agreement of one of the tenants.

Revenues and affiliates' earnings in the first nine months of 2006 amounted to \$69.5m compared with \$43.7m in the corresponding period last year, an increase of 59%. Total revenues during the reported period include a gain of \$835 thousand from the realization of assets and investments (same period last year – \$3.0m), as well as a net gain of \$14.9m from the appreciation of yielding real estate in affiliated companies and the realization of assets compared with \$2.6m in the corresponding period last year).

The Company's share in the affiliates' rental fees income for the third quarter amounted to \$10.6m, as compared with \$7.7m in the same period last year. In the reported period, the Company's share in these revenues amounts to \$29.9m as compared with \$14.2m in the corresponding period last year.

Financing expenses

Company's total financing expenses in the third quarter of 2006 amounted to \$6.9m compared with \$5.2m in the same quarter last year. During the reported period the financing expenses amounted to \$18.9m (corresponding period last year – \$14.2m). The financing expenses in the reported period include \$13.0m 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. The increase stems mainly from an increase in long-term loans attained for acquiring new assets as well as the effect caused by a higher CPI rise as compared with the increase in the debentures issued to the public.

Net income

Net income for the third quarter of 2006 amounted to \$7.4m as compared with \$3.3m in the same period last year, an increase of 124%. Net income during the reported period amounted to \$21.7m (corresponding period last year – \$12.2m, an increase of 78%).

During the reported period four foreign affiliates which prepare their financial statements in accordance with international accounting standards, including IAS 40, based on which yielding real estate is presented at fair value, reported a gain from the appreciation of their yielding properties, as follows:

The fair value is determined by one of the companies on the basis of actual sales price (see Note 3.J. to the financial statements), whereas in the remaining companies, is determined based on valuations performed by independent appraisers, based on the market value of the yielding real estate. The Company's after-tax share in the appreciation of the properties, as aforesaid, totaled \$4.7m, net, in the third quarter. The Company's share in the appreciation of the properties in the report period, as aforesaid, totals \$14.9m, compared with \$2.6m in the same period last year.

In the third quarter of 2006 the Company recorded a provision of \$232 thousand for the impairment in the value of assets.

Liquidity and financing resources

In the first nine months of 2006 operating activities provided the Company with cash flows totaling \$9.9m, as compared with \$9.0m in the same period last year.

Cash flows used in investment activities

Cash flows to investment activities in the first nine months of 2006, which amounted to \$314.3m, compared with \$80.3m in the same period last year, have been primarily affected by investments in Europe, Canada and USA.

Cash flows provided by financing activities

Cash flows from financing activities in first nine months of 2006, which amounted to \$336.5m, compared with \$119.1m in the same period last year, have been primarily affected by financing investment activity in Europe, Canada and USA.

D. FFO (Funds from Operations)

“FFO” is a non-accounting index accepted in the USA, 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 nine month of 2006 amounted to \$15.4m as compared with \$12.7m in the same period last year, an increase of 21%.

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 the ability to carry out cash distributions;
- is not deemed as an alternative to net income for assessing the Group’s results of operations;
- is not an audited figure.

The following FFO computations pertain to the reported periods:

	<u>Nine-month period</u> <u>ended September 30,</u>		<u>Three-month period</u> <u>ended September 30,</u>		<u>Year ended</u> <u>December 31,</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>In thousands US dollars</u>				
Net profit	21,727	(*)12,179	7,401	(*)3,291	(*) 27,491
Adjustments:					
Net gain from the sale of assets and investments	(584)	(2,431)	-	-	(10,692)
Depreciation and amortization	7,162	5,450	2,377	1,771	7,246
Impairment of the assets net of allocated expenses	105	-	-	-	1,823
Adjustments in respect of minority interest in subsidiaries	(364)	(337)	(112)	(113)	(460)
Adjustments in respect of the Company’s equity in affiliates’ earnings (**)	(12,660)	(2,072)	(4,021)	163	(9,130)
Adjustments in respect of prior years (Regulation 59d).	22	(58)	22	-	(58)
Total adjustments	(6,319)	552	(1,734)	1,821	(11,271)
F.F.O	15,408	12,731	5,667	5,112	16,220

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

(**) Stemming mainly from adjustments in respect of depreciation and amortization, provision for asset impairment and 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. Linkage Basis Report

See the appendix attached hereto.

G Accounting estimates

See directors' report as of December 31, 2005.

H Events during the balance period

1. The management agreement of August 2005, based on which Electra Ltd. has rendered the Company management services, was cancelled on August 8, 2006, to take effect after 90 days, on November 7, 2006 and following which the Company would alternatively engage Electra's administration formation independently and directly.
2. On August 8, 2006 the Controlling party in the Company, Electra Ltd., announced that the commitment made by Mr. Shlomo Sherf to the Company on August 9, 2005 and pertaining to ERE shares was revoked by mutual consent on August 8, 2006. Starting that date he will not be obliged to vote in ERE's General Meetings along with the Company's stand and to grant Electra Ltd. a first refusal right in the events he sells the Company's shares.
3. On September 18, 2006, the Company executed a private issuance to institutional investors of the Company's debentures (Series B), in the total amount of \$39.0m. The debentures (Series B) were offered through a tender on the annual interest rate. The interest fixed in the tender was 5.60%. The debentures (Series B) are to be repaid in 20 semi-annual payments, to be paid on October 1st and April 1st of each of the years 2009 through 2019 (inclusive). The debentures (Series B) bear annual interest of 5.6%, to be paid twice a year, on those dates, commencing April 1, 2007 through April 1, 2019 (inclusive). The principal and interest are linked to the Consumer Price Index published for August 2006. The debentures (Series B) were rated by the Ma'alot rating agency at A+. The debentures (Series B) were listed for trading on the Retzef Institutional list on October 24, 2006.

I Subsequent events

- A.** In October 2006, 311,890 option warrants (Series A) were exercised for 311,890 shares of the Company. Accordingly, the Company's shareholders' equity was increased by \$3.5m.
- B.** On November 7, 2006, the Company's board of directors approved a private placement of up to 1,160,000 ordinary shares, NIS 0.0001 par value, of the Company ("shares to be allotted"), which constitute 4.62% of the voting rights in the Company and of the issued and paid-up capital of the Company after the allocation; and 4.2% of the voting rights in the Company and of the issued and paid-up share capital on a fully-diluted basis. The shares to be allotted will be allotted to a party who is not an interested party or who will not become an interested party as a result of the allotment. As at this date, orders have been received for 553,134 ordinary shares out of the shares to be allotted, at a price of NIS 67 per share, and the orders were accepted by the Company. The allocation of the shares is subject to obtaining the stock exchange's approval for listing the shares.

On behalf of the Board of Directors:

Shlomo Sherf
CEO

Gershon Salkind
Chairman of the Board of Directors

November 7, 2006

ELECTRA REAL ESTATE LTD.

APPENDIX
TO THE REPORT OF THE BOARD OF DIRECTORS
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2006

Balance sheet linkage basis - September 30, 2006
(Table 1)

	Linked to Foreign currency(*)	CPI- linked	Unlinked	Balance	Balance- sheet total
	(in thousand US dollars)				
Cash and cash equivalents	31,252	-	16,553	-	47,805
Short-term deposits	3,538	-	43	-	3,581
Marketable securities	-	-	9,906	-	9,906
Trade accounts receivable	1,392	-	251	-	1,643
Receivables and other current assets	3,151	3	202	3,766	7,122
Investments in investees	20,385	-	598	109,554	130,537
Other investment	16,010	-	-	-	16,010
Long-term receivables	25,140	-	-	-	25,140
Deferred income taxes	-	-	-	3,699	3,699
Fixed assets, net	-	-	-	311	311
Yielding assets, net	-	-	-	732,849	732,849
Other assets, net	-	-	-	2,061	2,061
Total assets	100,868	3	27,553	852,240	980,664
Short-term bank borrowings to finance yielding assets	56,022	-	2,774	-	58,796
Trade accounts payable	5,930	-	3,302	-	9,232
Payables and other current liabilities	21,480	-	12,085	-	33,565
Long-term loans to finance yielding assets in-					
Israel	2,506	13,110	-	-	15,616
Britain	33,750	-	-	-	33,750
North America	158,451	-	-	-	158,451
Europe	330,520	-	-	-	330,520
Capital notes	-	-	12	-	12
Debentures	-	121,184	-	-	121,184
Liability from capitalization of management fees to a controlling shareholder	-	-	-	13,390	13,390
Loan from affiliate company	23,847	-	-	-	23,847
Loan from Electra Group companies	25,086	-	-	-	25,086
Loans from minority shareholders in subsidiaries	3,755	-	-	-	3,755
Deferred income taxes	-	-	-	3,341	3,341
Minority interest	-	-	-	1,347	1,347
Total liabilities	661,347	134,294	18,173	18,078	831,892
Net balance sheet amount	(560,479)	(134,291)	9,380	834,162	148,772
Classification of balances linked to the functional currencies of autonomous units	548,807	-	-	-	548,807
Total exposure of assets (liabilities)	(11,672)	(134,291)	9,380	834,162	697,579

ELECTRA REAL ESTATE LTD.

APPENDIX
TO THE REPORT OF THE BOARD OF DIRECTORS
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2006

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

	US Dollar	Sterling	Euro	Canadian dollar	Other	Linked to foreign currency
	(in thousand US dollars)					
Cash and cash equivalents	2,166	1,229	25,157	1,691	1,009	31,252
Short-term deposits	1,096	161	-	995	286	3,538
Marketable securities	-	-	-	-	-	-
Trade accounts receivable	327	-	564	459	42	1,392
Receivables and other current assets	53	18	1,713	1,265	102	3,151
Investments in investees	10,373	-	5,385	4,627	-	20,385
Other investment	-	16,010	-	-	-	16,010
Long-term receivables	1,985	1,934	8,232	11,518	1,471	25,140
Deferred income taxes	-	-	-	-	-	-
Fixed assets, net	-	-	-	-	-	-
Yielding assets, net	-	-	-	-	-	-
Other assets and net deferred charges, net	-	-	-	-	-	-
Total assets	16,000	19,352	41,051	21,555	2,910	100,868
Short-term bank borrowings to finance yielding assets	12,854	1,092	10,315	31,599	162	56,022
Trade accounts payable	-	-	4,717	1,199	14	5,930
Payables and other current liabilities	595	5,333	8,293	6,549	710	21,480
Long-term loans to finance yielding assets in-						
Israel	2,506	-	-	-	-	2,506
Britain	-	33,750	-	-	-	33,750
North America	55,256	-	-	103,195	-	158,451
Europe	1,000	-	261,445	-	68,075	330,520
Capital notes	-	-	-	-	-	-
Debentures	-	-	-	-	-	-
Liability from capitalization of management fees to a controlling shareholder	-	-	-	-	-	-
Loan from affiliate company	-	-	23,847	-	-	23,847
Loan from Electra Group companies	-	-	2,514	22,572	-	25,086
Loans from minority shareholders in subsidiaries	-	51	-	3,704	-	3,755
Deferred income taxes	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Total liabilities	72,211	40,226	311,131	168,818	68,961	661,347
Net balance sheet amount	(56,211)	(20,874)	(270,080)	(147,263)	(66,051)	(560,479)
Classification of balances linked to the functional currencies of autonomous units	44,551	20,874	270,080	147,263	66,039	548,807
Total exposure of assets (liabilities)	(11,660)	-	-	-	(12)	(11,672)

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 September 30, 2006 and for the nine and three month periods then ended

At your request, we have reviewed the condensed interim consolidated balance sheet of **Electra Real Estate Ltd.** ("the Company") and its subsidiaries at September 30, 2006, and the related condensed interim consolidated statements of operations, changes in shareholders' equity and cash flows for the nine and three month periods then ended (in the Hebrew language, not included herein) and have issued our accountants review report thereon dated November 7, 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 67.1% of the total consolidated balance at September 30, 2006 and revenues 59.9% and 53.6% of the consolidated total for the nine and three month periods then ended. We did not review the financial statements of investee companies, in which the Company's investment as of September 30, 2006 amounted to \$26,679 thousand and the Company's share in their results amounted to \$9,520 and \$2,862 thousand for the nine and three month periods then ended. The financial statements of those companies were reviewed by other accountants.

As described in Note 1, the accompanying English-language condensed interim consolidated financial statements in US dollars represent a translation of the above-mentioned 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 September 30, 2006. Comparative figures for the nine and three month periods ended September 30, 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 September 30, 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, November 16, 2006

ELECTRA REAL ESTATE LTD.

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

	September 30,		December 31,
	2 0 0 6	2 0 0 5	2 0 0 5
	In thousands		In thousands
	(unaudited)		(audited)
ASSETS			
Current assets			
Cash and cash equivalents	47,805	53,723	15,765
Short-term deposits	3,581	3,075	2,767
Marketable securities	9,906	10,597	23,239
Trade accounts receivable	1,643	2,061	992
Receivables and other current assets	7,122	6,968	7,512
	70,057	76,424	50,275
Investments, loans and long-term receivables			
Loans and long-term receivables	25,140	7,755	25,989
Investments in affiliates	130,537	64,597	87,786
Other investment	16,010	-	15,806
Deferred income taxes	3,699	1,489	2,588
	175,386	73,841	132,169
Yielding assets, net in -			
Israel	134,077	119,293	119,258
Britain	40,839	101,776	52,910
North America	194,030	177,234	178,738
Europe	363,903	35,237	60,055
	732,849	433,540	410,961
Fixed assets, net	311	287	139
Other assets, net	2,061	5,659	6,511
	980,664	589,751	600,055

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**

	September 30,		December 31,
	2 0 0 6	2 0 0 5	2 0 0 5
	In thousands		In thousands
	(unaudited)		(audited)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans to finance yielding properties (including current maturities of long-term loans)	58,796	55,820	33,030
Trade accounts payable	9,232	1,807	2,125
Payables and other current liabilities	33,565	10,513	17,272
	101,593	68,140	52,427
Loans for financing yielding assets in -			
Britain	33,750	91,634	44,166
North America	158,451	158,162	180,176
Europe	330,520	30,729	63,627
Israel	15,616	-	-
	538,337	280,525	287,969
Long-term liabilities			
Capital notes	12	12	12
Debentures	121,184	58,037	84,070
Liability of management fees to a controlling party	13,390	6,013	9,212
Loan from affiliate company	23,847	-	-
Loan from Electra Group companies	25,086	48,728	25,948
Loans from shareholders in subsidiaries	3,755	3,643	3,598
Deferred income taxes	3,341	2,288	2,559
	190,615	118,721	125,399
Minority interest	1,347	1,504	1,310
Shareholders' equity	148,772	120,861	132,950
	980,664	589,751	600,055

Approval date of the financial statements

Tel - Aviv, November 7, 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

	Nine-month period ended September 30,		Three-month period ended September 30,		Year ended December 31,
	2006	(**)2005	2006	(**)2005	(**)2005
	In thousands				In thousands
	(unaudited)				(audited)
Revenues					
Rental fees, management fees and others	48,319	38,577	17,558	13,292	51,847
Company's share in income of affiliates, net	21,206	5,189	7,479	1,633	14,083
Realization of investments and yielding assets	835	3,035	-	267	14,989
Total revenues	<u>70,360</u>	<u>46,801</u>	<u>25,037</u>	<u>15,192</u>	<u>80,919</u>
Costs and Expenses					
Operating expenses and maintenance fees	17,042	11,772	6,209	4,075	17,552
Depreciation and amortization	6,911	5,450	2,377	1,771	9,272
General and administrative expenses	4,627	(*) 1,971	1,754	(*) 966	(*) 3,907
Financing expenses, net	18,895	14,218	6,886	5,167	19,107
Total costs and expenses	<u>47,475</u>	<u>33,411</u>	<u>17,226</u>	<u>11,979</u>	<u>49,838</u>
Pre-tax income	<u>22,885</u>	<u>13,390</u>	<u>7,811</u>	<u>3,213</u>	<u>31,081</u>
Income taxes	<u>1,140</u>	<u>1,088</u>	<u>373</u>	<u>(188)</u>	<u>3,520</u>
Income after taxes on income	<u>21,745</u>	<u>12,302</u>	<u>7,438</u>	<u>3,401</u>	<u>27,561</u>
Minority interest in income of subsidiaries, net	<u>(18)</u>	<u>(123)</u>	<u>(37)</u>	<u>(110)</u>	<u>(70)</u>
Net income for the period	<u>21,727</u>	<u>12,179</u>	<u>7,401</u>	<u>3,291</u>	<u>27,491</u>
Earnings per share, net - in dollars:					
Basic	<u>0.92</u>	<u>(*) 0.59</u>	<u>0.31</u>	<u>(*) 0.15</u>	<u>(*) 1.29</u>
Diluted	<u>0.91</u>	<u>(*) 0.59</u>	<u>0.30</u>	<u>(*) 0.15</u>	<u>(*) 1.29</u>
Number of shares used in EPS computations (in thousands)					
Basic	<u>23,600</u>	<u>20,593</u>	<u>23,600</u>	<u>21,761</u>	<u>21,351</u>
Diluted	<u>23,965</u>	<u>20,593</u>	<u>24,265</u>	<u>21,761</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 nine month period ended September 30, 2006

	Share Capital	Additional paid-in capital	Cumulative Balance of stock-based 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)							
(Unaudited)							
Balance - January 1, 2006	(*)	74,287	1,909	3,758	(6,909)	59,905	132,950
Foreign currency translation adjustment of autonomous units	-	-	-	(3,125)	-	-	(3,125)
Capital reserve from capitalization of management fees to a controlling party	-	-	-	-	(3,134)	-	(3,134)
Expenses due to options granted to officers	-	-	354	-	-	-	354
Net income for the period	-	-	-	-	-	21,727	21,727
Balance – September 30, 2006	(*)	74,287	2,263	633	(10,043)	81,632	148,772

For the nine month period ended September 30, 2005

	Share Capital	Additional paid-in capital	Cumulative Balance of stock-based 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)							
(Unaudited)							
Balance - January 1, 2005	(*)	46,143	-	3,787	-	32,648	82,578
Issuance of shares (**)	(*)	28,144	-	-	-	-	28,144
Issuance of stock options (**)	-	-	1,732	-	-	-	1,732
Capital reserve from capitalization of management fees to a controlling party	-	-	-	-	(4,510)	-	(4,510)
Expenses due to options granted to officers	-	-	(***) 59	-	-	-	59
Foreign currency translation adjustment of autonomous units	-	-	-	679	-	-	679
Net income for the period	-	-	-	-	-	(***) 12,179	12,179
Balance – September 30, 2005	(*)	74,287	1,791	4,466	(4,510)	44,827	120,861

(*) Less than \$1 thousand.

(**) Net of issuance expenses.

(***) 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.

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

For the three month period ended September 30, 2006

	Share Capital	Additional paid-in capital	Cumulative Balance of stock-based 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)							
(Unaudited)							
Balance - July 1, 2006	(*)	74,287	2,145	3,173	(8,859)	74,231	144,977
Foreign currency translation adjustment of autonomous units	-	-	-	(2,540)	-	-	(2,540)
Capital reserve from capitalization of management fees to a controlling party	-	-	-	-	(1,184)	-	(1,184)
Expenses due to options granted to officers	-	-	118	-	-	-	118
Net income for the period	-	-	-	-	-	7,401	7,401
Balance – September 30, 2006	<u>(*)</u>	<u>74,287</u>	<u>2,263</u>	<u>633</u>	<u>(10,043)</u>	<u>81,632</u>	<u>148,772</u>

For the three month period ended September 30, 2005

	Share Capital	Additional paid-in capital	Cumulative Balance of stock-based 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)							
(Unaudited)							
Balance - July 1, 2005	(*)	46,143	-	4,050	-	41,536	91,729
Issuance of shares (**)	(*)	28,144	-	-	-	-	28,144
Issuance of stock options (**)	-	-	1,732	-	-	-	1,732
Capital reserve from capitalization of management fees to a controlling party	-	-	-	-	(4,510)	-	(4,510)
Expenses due to options granted to officers	-	-	(***) 59	-	-	-	59
Foreign currency translation adjustment of autonomous units	-	-	-	416	-	-	416
Net income for the period	-	-	-	-	-	(***) 3,291	3,291
Balance – September 30, 2005	<u>(*)</u>	<u>74,287</u>	<u>1,791</u>	<u>4,466</u>	<u>(4,510)</u>	<u>44,827</u>	<u>120,861</u>

(*) Less than \$1 thousand.

(**) Net of issuance expenses.

(***) 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.

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 of stock-based 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)							
(Audited)							
Balance - January 1, 2005	(***)	46,143	-	3,787	-	32,648	82,578
Issuance of shares (**)	(***)	28,144	-	-	-	-	28,144
Issuance of stock options (**)	-	-	1,732	-	-	-	1,732
Capital reserve from capitalization of management fees to a controlling party	-	-	-	-	(6,909)	-	(6,909)
Capital reserve in respect of financing expenses to a controlling party	-	-	-	-	-	(234)	(234)
Foreign currency translation adjustment of autonomous units	-	-	-	(29)	-	-	(29)
Expenses due to options granted to officers	-	-	(*) 177	-	-	-	177
Net income for the period	-	-	-	-	-	(*) 27,491	27,491
Balance - December 31, 2005	(***)	<u>74,287</u>	<u>1,909</u>	<u>3,758</u>	<u>(6,909)</u>	<u>59,905</u>	<u>132,950</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**

	Nine-month period ended September 30,		Three-month period ended September 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	In thousands (unaudited)				In thousands (audited)
Cash Flow - Operating Activities:					
Net income	21,727	(*) 12,179	7,401	(*) 3,291	(*) 27,491
Adjustments required to present cash flows from operating activities (Appendix A)	(11,825)	(*) (3,174)	(4,610)	(*) 250	(*) (13,983)
Net cash provided by operating activities	<u>9,902</u>	<u>9,005</u>	<u>2,791</u>	<u>3,541</u>	<u>13,508</u>
Cash Flows - Investing Activities:					
Initial full consolidation of a subsidiary that was proportionately consolidated in the past (Appendix C)	(2,294)	-	-	-	-
Realization of (investment in) marketable securities, net	13,968	(10,523)	8,932	(10,523)	(23,114)
Long-term loans granted	(641)	(1,927)	(76)	(1,000)	(6,051)
Collection of long-term debts (also from affiliated company)	490	94	452	48	1,417
Proceeds from the sale of investees that were proportionately consolidated (Appendix B)	2,934	10,289	-	4,173	16,566
Realization of (investment in) short-term deposits, net	(1,136)	(56)	169	9,753	254
Investment in investee companies including deposit designated to invest in investee	(18,268)	(43,730)	(6,443)	(279)	(73,836)
Investment in financial derivative	(1,507)	-	(1,507)	-	-
Deposits designated for yielding assets, net	(9,344)	-	713	-	(14,864)
Proceeds from disposition of yielding properties	-	-	-	-	33,224
Acquisition and construction of yielding assets	(298,080)	(33,311)	(218,914)	(25,564)	(59,871)
Acquisition of fixed assets and other assets	(438)	(1,173)	(139)	(408)	(1,272)
Net cash used in investing activities	<u>(314,316)</u>	<u>(80,337)</u>	<u>(216,813)</u>	<u>(23,800)</u>	<u>(127,547)</u>
Cash Flows - Financing Activities:					
Dividend paid to minority shareholders in a subsidiary	-	-	-	-	(132)
Issuance of debentures and options for debentures, net of related expenses	38,868	57,935	38,868	57,935	80,904
Issuance of stock options, net of related expenses	-	1,732	-	1,732	1,732
Receipt of loan from an affiliate company	23,847	-	23,847	-	-
Issuance of shares, net of issuance expenses	-	28,144	-	28,144	28,144
Receipt of long-term loans	289,289	52,104	188,535	21,762	93,143
Repayment of long-term loans	(14,334)	(9,857)	(12,470)	(490)	(35,316)
Receipt (repayment) of loans and capital notes from the Electra Group companies, net	(334)	(27,285)	(969)	(37,377)	(50,760)
Receipt of loans and capital notes from minority shareholders in a consolidated subsidiaries, net	241	383	73	280	319
Receipt (repayment) of short-term bank borrowings, net	(1,077)	15,933	6,397	(4,995)	5,871
Net cash provided by financing activities	<u>336,500</u>	<u>119,089</u>	<u>244,281</u>	<u>66,991</u>	<u>123,905</u>
Translation differences relating to cash balances in autonomous units	<u>(46)</u>	<u>(67)</u>	<u>(237)</u>	<u>30</u>	<u>(134)</u>
Increase in cash and cash equivalents	<u>32,040</u>	<u>47,690</u>	<u>30,022</u>	<u>46,762</u>	<u>9,732</u>
Cash and cash equivalents at beginning of period	<u>15,765</u>	<u>6,033</u>	<u>17,783</u>	<u>6,961</u>	<u>6,033</u>
Cash and cash equivalents at end of period	<u>47,805</u>	<u>53,723</u>	<u>47,805</u>	<u>53,723</u>	<u>15,765</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**

	Nine-month period ended September 30,		Three-month period ended September 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	In thousands				In thousands
	(unaudited)				(audited)
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	(21,206)	(5,189)	(7,479)	(1,633)	(14,083)
Minority interest in earnings of subsidiaries, net	18	123	37	110	70
Depreciation and amortization	6,911	5,450	2,377	1,771	9,272
Change in value of long-term receivables and liabilities, net (including interest charged to the parent company)	374	1,756	(33)	970	1,644
Deferred income taxes	181	442	207	(253)	511
Capital gain from realization of investments and sales of assets	(835)	(3,035)	-	(267)	(14,989)
Gain from marketable securities	(635)	(74)	(156)	(75)	(125)
Recording of expenses in connection with options which were granted to officers	354	(*) 59	118	(*) 59	(*) 177
Changes in assets and liabilities:					
Trade accounts receivables	(677)	(1,724)	(524)	(873)	(654)
Receivables and other current assets	1,440	(1,484)	113	(941)	(1,551)
Trade accounts payables	1,158	72	855	(32)	380
Payables and other current liabilities	1,092	430	(125)	1,414	5,365
	<u>(11,825)</u>	<u>(3,174)</u>	<u>(4,610)</u>	<u>250</u>	<u>(13,983)</u>
Appendix B - Proceeds from the sale of an investees that were proportionately consolidated					
Assets and liabilities at acquisition:					
Net working capital (excluding cash)	(197)	(15)	-	-	(598)
Yielding assets, net	12,527	23,899	-	3,906	47,606
Long-term liabilities	(10,231)	(16,630)	-	-	(37,247)
Profit from investment realization	835	3,035	-	267	6,805
	<u>2,934</u>	<u>10,289</u>	<u>-</u>	<u>4,173</u>	<u>16,566</u>
Appendix C - Initial full consolidation of a subsidiary that was proportionately consolidated in the past					
Assets and liabilities at acquisition:					
Net working capital (excluding cash)	162	-	-	-	-
Yielding assets, net	(19,940)	-	-	-	-
Other assets, net	(635)	-	-	-	-
Long-term liabilities	(1,685)	-	-	-	-
Profit from investment realization	19,804	-	-	-	-
	<u>(2,294)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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.
NOTES TO THE FINANCIAL STATEMENTS**

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 September 30, 2006 (\$1.00= NIS 4.302).

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 September 30, 2006. Comparative figures for the nine and three month periods ended September 30, 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 September 30, 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 September 30, 2006 and for the nine and three month periods then ended, should be read in conjunction with the Company's audited 2005 annual financial statements.

Except to the mentioned Notes B, D and E 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 STATEMENTS**

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 \$5.1m) as a reduction in loan and debenture balances. The comparative figures on December 31, 2005 and September 30, 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 of 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 \$1.1m over the vesting period of the options granted to its officers (between 2006 - 2010). Accordingly, the first nine months of 2006 has reflected such an expense of \$349 thousand.

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

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, see note 2.D. below.

Accounting 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 STATEMENTS**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Accounting 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 STATEMENTS**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Accounting Standard No.29 – Adoption of International Financial Reporting Standards (IFRS)

In July 2006 the Israeli Accounting Standards Board published Accounting Standard No.29 ("Adoption of International Financial Reporting Standards")

In July 2006 the Israeli Accounting Standards Board published Accounting Standard No.29 - "Adoption of International Financial Reporting Standards" - IFRS, which establishes that the financial statements of entities subject to the Israeli Securities Law and its reporting requirements, other than foreign corporations defined therein, will be prepared for reporting periods starting January 1, 2008 in accordance with the IFRS and their related clarifications published by the International Accounting Standards Board. An entity implementing the IFRS starting January 1, 2008 and electing to report comparative figures strictly for 2007 in accordance with the IFRS will be obliged to prepare an opening balance sheet at January 1, 2007 based on the IFRS.

The transition to reporting according to the IFRS will be carried out in accordance with IFRS No.1 ("Initial Adoption of IFRS Standards"), which outlines rules for implementing the transition from financial reporting based on domestic accounting principles to reporting in accordance with the IFRS.

IFRS No. 1 supersedes any transitional rules established in other IFRS (including those established in former domestic accounting standards), stating that all IFRS should be adopted retroactively for the opening balance sheet; nevertheless, IFRS No.1 grants allowances on certain issues by not applying the retroactive application in respect thereof. In addition, it contains certain exceptions in regard to the retroactive applications of certain aspects stipulated in other IFRS.

Company management intends to examine the effect of the transition to IFRS yet -at this stage – is unable to assess the extent of this impact on the financial statements.

Standard No. 29 enables the applicable entities to prepare their financial statements based on the IFRS prior to January 1, 2008, starting the financial statements published subsequent to July 31, 2006. Management has not yet decided whether to adopt the IFRS earlier.

Accounting Standard No. 27 – Fixed Assets

During the month of September 2006, the Israeli Accounting Standards Board published Accounting Standard Number 27, "Fixed Assets" (hereafter- "the Standard"), which stipulates the accounting treatment of fixed assets, including the recognition of assets, determining their value in the accounts and the depreciation expenses and losses from impairment of value which will be recognized with respect to them. Additionally, the Standard states the disclosure that is necessary in the financial statements in connection with the fixed assets of an entity. The provisions of this Standard will be applied to real estate located or developed for future use as real estate for investment, and will not apply to real estate for investment, the construction or development of which was completed.

Among other things, the Standard stipulates the following:

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Accounting Standard No. 27 – Fixed Assets (cont.)

An item of fixed assets will be measured at the time of initial recognition at cost which includes, in addition to the purchase price of the asset, all of the costs which can be directly attributed to bringing that item to the location and condition that are necessary in order to enable it to operate in the manner intended by management. In addition, the cost is composed of the initial estimate of the costs to dismantle and remove the item and to restore the location of the item as to which the entity had an obligation when the item was acquired, or as the result of using it over a specific period other than for the purpose of producing inventory during that same period.

The Standard stipulates that upon purchasing fixed assets in exchange for a non-monetary asset or non-monetary assets or in consideration of a combination of monetary assets and non-monetary assets, the cost will be measured according to fair value, except if (a) the exchange transaction has no commercial substance or (b) the fair value of the asset received and the asset conferred cannot be reliably measured. Should the asset purchased not have been measured on the basis of fair value, its cost will be set according to the book value of the asset conferred.

After the initial recognition, the Standard permits the entity to select whether to implement measurement of fixed assets as part of its accounting policies either by the cost method or the revaluation method, as long as this policy is implemented for all items of fixed assets from the same group.

- Under the cost method, an item of fixed assets is presented at its cost, less accumulated depreciation and less cumulative losses from impairment of value.
- Under the revaluation method, an item of fixed assets, the fair value of which can be determined in a reliable manner, will be presented at a revalued amount, which is equivalent to its fair value on the date of the revaluation, less depreciation accumulated thereafter, and less cumulative losses from impairment of value. Revaluations will be carried out on a regular basis which is sufficient to assure that book value is not materially different from the value which would have been determined at fair value as of the balance sheet date. If an item of fixed assets is revalued, the entire group of fixed assets to which the asset pertains must be revalued. Should the book value of an asset increase as the result of a revaluation, the increase is to be recorded directly to shareholders' equity, under the heading of Revaluation Surplus. At the same time, the increase will be recognized in operating results up to the amount by which it cancels a decrease which resulted from a revaluation of that same asset which had previously been recognized in operating results. If the book value of the asset decreases as the result of a revaluation, the decrease will be recognized in operating results. Nevertheless, the decrease will be recorded directly to shareholders' equity under the heading of Revaluation Surplus up to the amount as to which any credit balance with relation to such asset exists in Revaluation Surplus.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Accounting Standard No. 27 – Fixed Assets (cont.)

Each part of a fixed asset that has a cost which is significant in relation to the total cost of the item should be depreciated separately. In addition, the method of depreciation which is used for an asset should, at a minimum, be reviewed as of the end of each fiscal year and, should a substantial change have taken place in the pattern of utilization of the anticipated future economic benefits incorporated in the asset, the method should be changed in order to reflect the pattern which has changed. Such change should be treated as a change in accounting estimate.

In accordance with the provisions of the Standard, this Standard will apply to financial statements which relate to periods which commence on January 1, 2007 and thereafter, and will be applied in the manner of retroactive implementation, except as stated below:

- As for an entity which, as of January 1, 2007, selects the revaluation method as its accounting policy with respect to a group of fixed assets, the difference between the revalued book value of the asset as of that date and its cost, represents the Revaluation Surplus on that date.
- An entity which, upon initial recognition, has not included a preliminary estimate of the costs of dismantling and removing the item and of restoring the location of the item, in the cost of an item of fixed assets, is required to:
 - A. Measure the liability as of January 1, 2007 in accordance with generally accepted accounting principles;
 - B. Calculate the amount which would have been included in the cost of the relevant asset on the date on which the liability was initially incurred by capitalizing the amount of the liability mentioned in paragraph A above as of the date on which the liability was initially incurred (hereafter- "the capitalized amount"); and also
 - C. Calculate the depreciation accumulated on the capitalized amount as of January 1, 2007 on the basis of the duration of the useful life of the asset as of that date;
 - D. The difference between the amount charged to the asset according to paragraphs B and C above and the amount of the liability, according to paragraph A above, will be recorded to retained earnings.

The Company is assessing the new Standard, including the choice between the cost method and the revaluation method, but is unable, at this stage, to approximate the effect of the Standard, if at all, on its financial condition and results of operations.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

	September 30,		December 31,
	2006	2005	2005
CPI (in points)	186.48	184.15	185.05
<u>In NIS:</u>			
US dollar	4.302	4.598	4.603
Pound sterling	8.043	8.089	7.941
Canadian dollar	3.869	3.938	3.964
Euro	5.455	5.528	5.447
Swiss franc	3.439	3.553	3.498

	Nine-month period ended September 30,		Three-month period ended September 30,		Year ended December 31,
	2006	2005	2006	2005	2005
Change in exchange rate during the period then ended (in %):					
CPI	0.77	1.89	(0.76)	1.38	2.39
US dollar	(6.54)	6.73	(3.11)	0.52	6.85
Pound sterling	1.29	(2.67)	(1.16)	(1.35)	(4.42)
Canadian dollar	(2.40)	10.03	(3.27)	6.11	10.77
Euro	0.16	(5.94)	(3.34)	0.01	(7.32)
Swiss franc	(1.69)	(6.65)	(4.50)	(0.37)	(8.09)

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, and as at September 30, 2005 and for the periods of nine and three month then ended, 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.

Effect of the adjustment on the financial statements:

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

	Previously Reported	Change	Currently presented
	(in thousand US dollars)		
General and administrative expenses	3,730	177	3,907
Net income	27,668	(177)	27,491
Earnings per share (basic), net (in dollars)	1.29	-	1.29
Earnings per share (diluted), net (in dollars)	1.29	-	1.29

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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>60,082</u>	<u>(177)</u>	<u>59,905</u>
Cumulative balance representing stock-based proceeds from the issuance of options	<u>1,732</u>	<u>177</u>	<u>1,909</u>
Shareholder's Equity	<u>132,950</u>	<u>-</u>	<u>132,950</u>

Consolidated statement of operations for the nine month period ended September 30, 2005:

	<u>Previously Reported</u>	<u>Change</u>	<u>Currently presented</u>
	<u>(in thousand US dollars)</u>		
General and administrative expenses	<u>1,912</u>	<u>59</u>	<u>1,971</u>
Net income	<u>12,238</u>	<u>(59)</u>	<u>12,179</u>
Earnings per share (basic and diluted), net (in dollars)	<u>0.60</u>	<u>(0.01)</u>	<u>0.59</u>

Statement of changes in shareholders' equity for the nine month period and three month period ended September 30, 2005:

	<u>Previously Reported</u>	<u>Change</u>	<u>Currently presented</u>
	<u>(in thousand US dollars)</u>		
Retained earnings	<u>44,886</u>	<u>(59)</u>	<u>44,827</u>
Cumulative balance representing stock-based proceeds from the issuance of options	<u>1,732</u>	<u>59</u>	<u>1,791</u>
Shareholder's Equity	<u>120,861</u>	<u>-</u>	<u>120,861</u>

Consolidated statement of operations for the three month period ended September 30, 2005:

	<u>Previously Reported</u>	<u>Change</u>	<u>Currently presented</u>
	<u>(in thousand US dollars)</u>		
General and administrative expenses	<u>907</u>	<u>59</u>	<u>966</u>
Net income	<u>3,350</u>	<u>(59)</u>	<u>3,291</u>
Earnings per share (basic and diluted), net (in dollars)	<u>0.15</u>	<u>-</u>	<u>0.15</u>

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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.

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 (\$89.0m), plus related expenses totaling €6.5m (\$8.2m). 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 (\$6.6m), linked to a mechanism providing an increment of 2% per annum payable at the beginning of the year. The average net annual rental fees (100%) amount to €5.5m (\$7.0m). All management and maintenance expenses are paid by the tenants.

A German financial institution provided a loan of €63.5m (\$80.4m), at an annual interest rate of 3.79% for a period of seven years. The loan is secured by a non-recourse fixed first-tier lien on the assets and its income. During the reported period the interest rate was fixed at 5.21%.

Subsequent to the balance sheet date, the property was refinanced. A financial institution in Germany provided a loan to finance the purchase of €75.5m (\$95.1m) for a 7-year period, at fixed interest of 5.35%. This 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 (\$19.1m- 100%) plus an additional €0.5m (\$0.7m). 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 – January 2007). The annual net rental fees, which amount to €1.21m (\$1.6m – 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. The average net annual rental fees (100%) amount to €1.3m (\$1.7m).

A German financial institution provided of €12.1m (\$16.0m) for financing the entire project at annual interest of 5.2%, repayable in seven years following project completion.

- C.** In April 2006 a wholly owned subsidiary acquired 40% of the rights in a yielding asset located in Atlanta, USA, at a cost of \$40m, plus related expenses of \$1.4m. The asset, situated in the city's business district, consists of an 18-storey office buildings earmarked for historical preservation, covers 40,500 sq. m. along with 625 underground parking spaces. The building, currently enjoying an occupancy rate of 78%, yields gross annual rental fees of \$6.7m - net of related management and maintenance expenses - \$2.9m. The building is leased to various tenants for different periods, with Sun Trust constituting the major tenant with a lease expiring in December 2010.

To finance the transaction, a US financial institution provided a 10-year loan of \$30.5m bearing a fixed interest rate of 6.33%. The loan is secured by a non-recourse fixed first-tier lien on the assets and on its income.

ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - ESSENTIAL EVENTS DURING THE BALANCE PERIOD (Cont.)

- D.** During the reported period four foreign affiliates which prepare their financial statements in accordance with international accounting standards, including IAS 40, based on which yielding real estate is presented at fair value, reported a gain from the appreciation of their yielding properties, as follows: The fair value is determined by one of the companies on the basis of actual sales price,(see note 3.J.) whereas in the remaining companies, is determined based on valuations performed by independent appraisers. The Company's equity in the appreciation of these properties, which totals an after-tax amount \$14.9m, has been reported in the second quarter of 2006 as "equity in earnings of affiliates".
- E.** During July and October 2006 the Company reached an understanding with its lending banks for extending its long-term credit line of \$60.0m, subject to the Company's compliance with agreed terms and, accordingly, these amounts were presented as long-term loans.
- F.** In May 2006 a wholly owned subsidiary acquired the remaining 30% of the rights in a yielding property in Toronto, Canada, following the purchase of 70% in January 2004 at a property value of C\$43m. The 2006 purchase of 30% at C\$21.3m (\$20.0m) was carried out at a property value of C\$71m. The purchase-related expenses amounted to C\$0.8m (\$744 thousand). The 25-storey (33,600 sq m.) building is located in the center of the city's business district and is mostly leased to the Government of Canada (50%) and Zurich Insurance (30%) by leases expiring in October 2015 and January 2014, respectively.

In light of the meaningful increases in the property's value the Company refinanced it with a 10-year loan of C\$57m (\$53.5m) at a fixed interest rate of 5.68%. The loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

- G.** In May 2006 the Company concluded, through a wholly owned foreign subsidiary, a transaction for acquiring in stages 45% of rights in eight shopping malls (125,000 sq. m), five of which are located in Germany (Berlin, Munich and Nuremberg) and three in Switzerland (Zurich, Biel and Lucerne). The purchase cost of the rights (100%) amounted to €203.4m (\$267m), plus related expenses of €11.6m (\$15.3m). All the eight malls are fully leased to Hornbach Ltd. (a leading Do-It-Yourself retailer) for a 15-year period, starting on each building's occupancy date, with a renewal option granted to the tenants. The gross annual rental fees expected from these malls amounts to €12.8m (\$17.0m) and they have a mechanism for adjusting them to the CPI. All management and maintenance fees are payable by the lessee.

At the first stage the Company acquired the rights to three German malls, out of eight (in Berlin and Nuremberg) at a cost of €53.1m (\$70.0m) plus related expenses of €4.5m (\$5.9m). The remaining malls, currently in various construction stages, will be acquired within the framework agreement upon completion of construction and with the beginning of rental payments (estimated for the second half of 2007 until the end of the first half of 2008).

The Company obtained a credit line of €182.5m (\$232m) at an expected average interest rate of 4.5%. The five-year, non-recourse loan for the first three centers, which amounted to €48m (\$63.2m) at a fixed rate of 5.18%, is secured by a first-tier lien on the assets and their income.

ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - ESSENTIAL EVENTS DURING THE BALANCE PERIOD (Cont.)

H. In May 2006 a subsidiary acquired 70% of the rights in a yielding asset in Switzerland at a cost of SFr 24.7m (\$20.5m), including related expenses. The asset, a five-storey building, is located in Zurich, Switzerland and it consists of 13,000 sq. m. and 50 underground parking spaces. It is leased entirely to Phillips Ltd. by a lease expiring in May 2011. The lessee agreed to renovate the asset at a cost of SFr 6m. The net annual rental fees (100%) amount to SFr 1.7m (\$1.4m), with all management and maintenance fees paid by the lessee. A foreign financial institution provided a five-year loan of SFr 19.3m (\$16.0m) for financing the entire transaction at a fixed interest rate of 4.05%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

I. In July 2006 a wholly owned subsidiary acquired 47% of the rights in a yielding asset in Louisville, Kentucky, USA at a cost (100%) of \$42.85m plus related expenses of \$1.0m. The asset, a 23-storey building, is located in the center of the city's business district and it consists of 26,750 sq. m. and 465 underground parking spaces. The asset is leased entirely to various tenants for different periods, with the major lessee (62%), E.ON.US, a gas company, having a lease expiring in July 2015. The building's present occupancy rate is 79%, with the gross annual rental fees (100%) amounting to \$5.55m net of management and maintenance fees - \$3.3m.

A US financial institution provided a 10-year loan of \$32m for financing the entire transaction at a fixed interest rate of 6.14%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

J. In July 2006 a foreign affiliate concluded a sale of the shares of the company holding rights in seven yielding properties in Germany (the western side), which are leased to a subsidiary of Deutsch Telecom. The Company ultimate share in those yielding properties is 40% . The sale reflects a 100% asset value of €334m (\$434.6m). The cost of the rights which acquired in April 2005 was of €282m (\$367.3m), including related expenses. The capital gain resulting from the abovementioned sale of shares is \$12.3m, before tax. The gain from the above transaction is reflected in the Company's statement of operations for the six-month period ended June 30, 2006, as part of the revaluation that was based on the sales price (see note 3.D. above).

K. In July 2006 a wholly owned subsidiary acquired 65% of the rights in a yielding property in Zurich, Switzerland at a (100%) cost of SFr 109m (\$91.2m), plus related expenses of SFr 4.8m (\$4.0m). The asset, a building of 30,800 sq. m. is used as the telecommunication center of Swisscom Ltd., the country's national telecom company and is entirely leased by a 20-year agreement expiring March 2026, with an option to renew it for a period of 15 years (until 2041). The gross annual rental fees (100%) amount to SFr 6m (\$5.0m) (net of management and maintenance expenses– SFR 5.75m (\$4.8m). The management and maintenance fees are payable by the lessee. The rental fee are 80% linked to the Swiss CPI at the beginning of every year.

A foreign financial institution provided a seven-year loan of SFr 98.1m (\$82.1m) for financing the entire transaction at a variable interest rate of 2.7%, with a CAP maximum of 4.35%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

L. The management agreement of August 2005, based on which Electra Ltd. has rendered the Company management services, was cancelled on August 8, 2006, to take effect after 90 days, on November 7, 2006 and following which the Company would alternatively engage Electra's administration formation independently and directly.

ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - ESSENTIAL EVENTS DURING THE BALANCE PERIOD (Cont.)

- M.** In August 2006, a wholly-owned subsidiary of the Company purchased 50% of the portfolio rights comprised of six yielding properties in West Germany. The purchase price of the properties (100%) is €52.2m (\$68.5m), plus related expenses of €4.5m (\$5.9m).

The purchased properties include 3 office-building complexes in Frankfurt with total area of 16,000 sq. m., in addition to an adjacent parking garage containing 125 covered parking spaces. The properties also include 2 adjacent office buildings in Düsseldorf, with total area of 4,650 sq. m. as well as a commercial center in Bad Hamburg, with total area of 6,500 sq. m. plus 150 parking spaces. The properties are leased to various tenants for different periods, the main ones of which are the German Government, management of the Steigenberger Hotels chain, UBS and the Turkish bank Oyak Anker Bank and the Toom retail chain. Occupancy of the properties is 100%. The net annual rental fees of all the abovementioned properties (100%) total €3.9m (\$5.1m). All the current management and maintenance expenses are paid by the tenants. The rental fees are linked to the consumer price index in Germany.

A foreign financial institution provided a loan for a seven-year period, to finance the acquisition (100%) in the amount of €42.65m (\$56.0m), at fixed interest of 5.16%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

- N.** In September 2006, a wholly-owned subsidiary of the Company acquired a yielding property in Nierenberg in West Germany. The purchase price of the property was €93.9m (\$123.3m). plus related expenses of €1.8m (\$2.4m). The property is an office-building campus located in Nierenberg in West Germany, with total area is 47,200 sq. m., plus an adjacent building containing 1,400 covered parking spaces. The building is rented in full to Lucent Technologies in a contract terminating in December 2014, with two options, each to extend the contract for 5 years. The net annual rental fees are €7.6m (\$9.9m). The rental fees are linked in full to the consumer price index in Germany, every 3 years. All current management and maintenance expenses for the property are paid by the tenant.

Two foreign financial institutions provided loans for a period of 6.5 years, to finance the purchase, in the amount of €70.0m (\$91.9m), at fixed interest at the rate of 4.45%. The loans are secured in a first and second-level fixed lien on the property and the receipts of the property, on a non-recourse basis.

Additionally, another foreign financial institution provided a loan of €12.9m (\$16.9m) at variable interest, which is presently 5.20%, for a period of 6.5 years, with an exit fee of 24% of the gain to be created by the project when sold in the future. This loan is secured by a non-recourse fixed third -tier lien on the assets and its income.

- O.** In September 2006, a wholly-owned subsidiary of the Company purchased 47% of the rights in a yielding property in Chicago, USA. The purchase price of the property (100%) before expenses is \$91.5m, plus related expenses of \$2.7m. The building is a 35-story office building located in the business center of Chicago, in the state of Illinois of the USA. The total leaseable area is 47,600 sq. m.. The building is leased to various tenants for different periods. The buildings current occupancy rate is 91%. The gross annual rental fees (100%) are \$14.35m, and after deducting management and maintenance expenses, net rental fees are \$6.6m.

A USA financial institution provided a loan to finance the purchase of \$72m, at fixed interest of 6.07% for 9 years.

This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - ESSENTIAL EVENTS DURING THE BALANCE PERIOD (Cont.)

- P. In September 2006, the Company executed a private issuance to institutional investors, of the Company's debentures (Series B), in the total amount of \$39.0m. The debentures (Series B) were offered through a tender on the annual interest rate. The interest fixed in the tender was 5.60%. The debentures are to be repaid in 20 semi-annual payments, on October 1st and April 1st of each of the years 2009 through 2019 (inclusive), commencing October 1, 2009 through April 1, 2019 (inclusive). The debentures (Series B) bear annual interest of 5.60%, to be paid twice a year, on April 1st and October 1st, commencing April 1, 2007 through April 1, 2019 (inclusive), linked principal and interest to the Consumer Price Index published for August 2006. The debentures (Series B) were rated by the Ma'alot rating agency at A+. The Company has undertaken toward the holders of the debentures (Series B) to list the debentures (Series B) on the Retzef Institutional, subject to the stock exchange's approval.

NOTE 4 - SUBSEQUENT EVENTS

- A. In October 2006, a wholly-owned subsidiary of the Company purchased 42% of the rights in a yielding property in Toronto, Canada, in which it holds 49% of the rights. Following the additional purchase, the subsidiary holds 91% of the rights in the said property. The property is two connected office buildings, with total area of 21,850 sq. m., in Toronto Canada. The purchase of 49% of the rights in June 2004 was based on a property value (100%) of C\$34.8m (\$30.7m). The purchase of the additional 42% was based on a property value (100%) of C\$40m (\$35.3m). The present purchase amount for the additional 42% is C\$16.8m (\$14.8m), plus related expenses of C\$0.35m (\$302 thousand).

The building is leased to various tenants for different periods. The property's present occupancy rate is 99%. The current gross annual rental fees (100%) are C\$6.1m (\$5.4m), and after reducing management and maintenance expenses, the net rental fees (100%) are C\$3.2m (\$2.8m).

The property (100%) is financed by a C\$25m loan (\$22.1m) from a foreign bank, at fixed interest of 6.16% for the period ended June 2009. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.
- B. In October 2006, 311,890 option warrants (Series 1) were exercised for 311,890 shares of the Company. Accordingly, the Company's shareholders' equity increased by \$3.5m.
- C. On November 7, 2006, the Company's board of directors approved an employment agreement between the Company and the Company's Chief Executive Officer ("CEO"), whereby, in addition to his salary, the Company's CEO is entitled to a bonus at the rate of 2.5% of the annual consolidated pre-tax income of the Company, as stipulated in the employment agreement.
- D. On November 7, 2006, the Company's board of directors approved a private placement of up to 1,160,000 ordinary shares, NIS 0.0001 par value, of the Company ("shares to be allotted"), which constitute 4.62% of the voting rights in the Company and of the issued and paid-up capital of the Company after the allocation; and 4.2% of the voting rights in the Company and of the issued and paid-up share capital on a fully-diluted basis. The shares to be allotted will be allotted to a party who is not an interested party or who will not become an interested party as a result of the allotment. As at this date, orders have been received for 553,134 ordinary shares out of the shares to be allotted, at a price of NIS 67 per share, and they were given an acceptance by the Company. The allocation of the shares is subject to obtaining the stock exchange's approval for listing the shares.

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

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>	<u>North America</u>	<u>Total</u>
	(in thousand US dollars)			
Nine month period ended September 30, 2006:				
Segment revenues	6,353	25,578	38,429	70,360
Segment results	(1,817)	12,560	12,142	22,885
Nine month period ended September 30, 2005:				
Segment revenues	6,308	13,535	26,958	46,801
Segment results	(*) 870	6,394	6,126	(*) 13,390
Three month period ended September 30, 2006:				
Segment revenues	1,825	8,769	14,443	25,037
Segment results	(637)	3,103	5,345	7,811
Three month period ended September 30, 2005:				
Segment revenues	2,173	3,687	9,332	15,192
Segment results	(*) (315)	1,373	2,155	(*) 3,213
Year ended December 31, 2005:				
Segment revenues	8,615	36,263	36,041	80,919
Segment results	(*) (3,330)	26,995	7,416	(*) 31,081

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

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

NOTE 6 - PROFORMA FINANCIAL STATEMENTS

In August 2005 the Company engaged with its parent company in an 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 23.g to the annual financial statements). The effect on the consolidated statement of operations during the reported periods is presented below (assuming that the abovementioned agreements were in effect during these periods):

	Nine -month period ended September 30, 2 0 0 5	Three-month period ended September 30, 2 0 0 5	Year ended December 31, 2 0 0 5
	In thousands US dollars (unaudited)	In thousands US dollars (unaudited)	In thousands US dollars (audited)
Net income as previously reported	(*) 12,179	(*) 3,291	(*) 27,491
An addition to the management fees - proforma	(1,041)	-	(1,059)
Tax effect	354	-	290
Net income - proforma	<u>11,492</u>	<u>3,291</u>	<u>26,722</u>
Earnings per share (in dollars):			
Basic and Diluted	<u>0.56</u>	<u>0.15</u>	<u>1.25</u>

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