

ELECTRA REAL ESTATE LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2007
(CONVENIENCE TRANSLATION INTO U.S. DOLLARS)

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ELECTRA REAL ESTATE LTD.

**REPORT OF THE BOARD OF DIRECTORS
FOR THE PERIOD ENDED MARCH 31, 2007**

The Board of Directors of Electra Real Estate Ltd. is pleased to submit herewith the financial statements of the Company and its subsidiaries ("the Company") for the period of three months ended March 31, 2007.

This report should be read in conjunction with the Company's annual financial statements (including its Report of the Board of Directors as of December 31, 2006).

The Company's activities are conducted through the Company and its subsidiaries. See also the Report on the Business Description of the Company as of December 31, 2006.

A. The Company and its Business Environment

The Company and its investees ("the Group") are engaged in the real estate industry in Israel and overseas, mainly in yielding commercial real estate, as well as in initiated residential real estate activity, directly and through companies it owns.

Within the framework of its activity, the Group focuses on the acquisition, leasing, set up, improvement and sale of yielding commercial real estate. As of the date of the financial statements the Group holds, in Israel and abroad, 87 assets including 75 yielding assets and 12 assets in various stages of development and construction as well as 9.9% in 63 hotels across Britain, as follows:

Country	Yielding assets	Nature of asset
Israel	18	Yielding assets (including 4 assets under construction)
Britain	6 63	Yielding assets Hotels (Company's share- 9.9%)
Canada	15	Yielding assets
USA	10	Yielding assets (including one asset under construction)
Germany	30	Yielding assets (including two assets under construction)
Switzerland	6	Yielding assets (including three assets under construction)
India	2	Assets under construction

Total area and average occupancy rates of yielding assets (including Company's share in assets of affiliates) – 860,000 sq. m. and 95%, respectively.

Activity in Israel

The Company holds seven office buildings held at different percentages ranging and six office floors in different locations in Israel. The assets are leased to various tenants for different periods expiring between 2007 and 2020. In addition, the Company holds six assets under construction.

- On May 9, 2007, the Audit Committee and the Board of Directors of the Company approved a transaction for the acquisition of 25% of the rights in plot of land situated in Yigal Allon Street, Tel Aviv, and for the construction of a project of a 45-storey office block, as a joint transaction with Electra Industries Ltd., a wholly-owned subsidiary of Electra Ltd. (hereinafter, "Electra"), the controlling shareholder in the Company, and Amcor (hereinafter, "the seller"). Pursuant thereto, each will acquire 25% of the right in the plot from the project, as aforesaid, from the seller (hereinafter, "the Project").

The plot is a tract of land leased under a perpetual lease from Israel Lands Administration and from the Tel Aviv Municipality. The Project is a real estate project for the construction of an office block and commercial areas with an area of 54,000 square meters, a car-park with 1,200 parking spaces. The office space that will be built is intended for rental and for sale.

Each party will bear its proportional share in the expenses of the Project. The construction of the Project will be financed through bank funding. Each party to the transaction will make available collateral and shareholders' equity to support the bank funding as necessary, without cross-guarantees and according to its proportional share.

The proceeds in respect of the rights in the plot were determined as a derivative of the various types of areas of the Project. The Company's share in the proceeds in respect of the rights in the plot amounts to US\$ 10.8 million. A mechanism has been determined between the parties for adjusting proceeds for the actual measurement of the types of the areas.

The project will be constructed by Electra Construction Ltd., a wholly-owned subsidiary of Electra, as a key contractor on the basis of predetermined specification. The total cost of construction is estimated at US\$ 72.2 million. The prices, which do not include value added tax, are linked to the basic index of building inputs. A mechanism has been determined between the parties for reducing the proceeds, in the event of a delay in completing the performance and remuneration in respect of complying with timetables.

Each party will bear the costs of constructing the Project according to its proportional share in the plot (i.e., Electra Industries – 25%, the Company – 25% and the Seller – 50%).

The Company anticipates that the construction of the Project will take around 40 months. The cost of the Project to the Company, before finishing work, is estimated by the Company at US\$ 36.1 million and US\$ 40.9 million including finishing work, including the Company's share in acquiring the plot.

After the building is occupied, it will be managed through a management and maintenance company to be agreed by the parties.

The transaction is subject to the receipt of an exclusion letter from Bank Leumi Ltd., which holds a lien on the rights of the Seller in the plot.

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 2020, held at percentages of 75% and 100%. The annual rental fees from these properties amount to £ 1.75m (Company's share), with the Company obliged to pay annual leasing fees of £ 0.3m 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.

- In March 2007, a foreign company, in which the Company has a 75%-holding, concluded a transaction to sell its rights in a property. The net proceeds attributable to the Company as a result of the sale were £ 1.2 million. The gain arising on the sale was included in the revaluation of the properties in accordance with international accounting principles (IFRS) in previous years.

- In March 2007, a foreign company, in which the Company has a 75%-holding, acquired the ownership rights in land in the amount (100%) of £ 5 million, as well as related expenses of £ 0.4 million. To that date, the land was under a lease. The Company has included a gain from the increase in the value of the property totalling, before tax, US\$ 2.2 million, in its statement of operations for the reporting period.
- In March 2007, the Company, through foreign companies (hereinafter, "the foreign companies") in which the Company holds, through foreign companies, 9.9% (hereinafter, "the acquiring companies") concluded an agreement to purchase the entire share capital of the foreign companies holding 47 hotels managed by the Marriott chain throughout the United Kingdom (hereinafter "the hotels"), 39 of the hotels in England (of which 5 are in London), 5 in Scotland, and 3 in Wales. The hotels are divided into business tourist hotels, golf hotels and tourist hotels, and they include, in total, 8,456 rooms. The acquisition is of the hotels with their entire contents, including all of the furniture and equipment contained therein. A management agreement has been signed by the acquiring companies and the Marriott chain (hereinafter, "the management agreement") whereby the hotels will be managed by the Marriott chain for 30 years with Marriott having an option to extend the agreement for a further 10 years under the conditions that have been agreed. The management agreement relates to the amount of the management fees and the amounts of investment and maintenance. Pursuant to the management agreement, the employees will continue to be employed by the Marriott chain. The management agreement further provides that if Marriott chain does not fulfil the tests of results relating mainly to profitability and occupancy of the hotels, the acquiring companies will be entitled to discontinue the management of the hotels by Marriott. It should be noted that Marriott was not granted an exit right from the management. According to a forecast carried out by independent experts, the average net revenues from the hotels (100%), after deducting all of the expenses for the next 10 years (before financial expenses) is £ 78 million for each year. In order to finance the acquisition, a non-recourse long-term fixed-interest loan of £ 856.1 million was approved for the acquiring companies. In addition, the bank undertook to finance additional investments for the acquiring companies that will be required in the coming years in the amount of up to £ 62.2. The bank financing the acquisition will be entitled to 20% of the gains on the sale of the properties in the future. In computing the aforementioned gains, current receipts will not be taken into account. Also, not taken into account is an amount reflecting the increase in the value of 2.5% per annum in respect of each year until the sale. The total shareholders' equity required from the foreign companies (100%) for the acquisition includes all of the related costs, i.e., £ 207.2 million. The share of the foreign companies of the Company in the shareholders' equity is £ 20.5 million. The data set forth above regarding the scope of revenues including from the project and the additional financing is prospective information. This information is based on data on costs, work-programs and sales forecasts of the Company, correct as of the balance sheet date, and is subject to external influences due to factors that are not dependent on the Company, for example, costs in the price of labour and raw materials, changes in currency rates, demand, etc. Accordingly, it is possible that the aforesaid actual data will differ from the Company's estimates, as mentioned above.

Canada

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in 15 commercial buildings in Canada that are held at various rates ranging from 55% to 100% in lease contracts for periods which ends between 2007 and 2022. The yielding annual rental fees amounting to Can\$55.3 million, net after management and maintenance fees – Can\$28.3 million.

- In January 2007, a wholly-owned foreign subsidiary of the Company acquired 55% of the rights to a rental property and adjacent land in the city of Toronto, Canada. The acquisition price of the rental property (100%) before expenses is Can\$ 51 million, plus Can\$ 1.6 million of related expenses. The property is a seven-storey office block located in the city of Toronto, Canada. The aggregate net area for rental is approximately 24,600 square meters, with the addition of 500

parking places. The building is leased to various tenants for various periods, with the main tenants being the Canadian government, Heinz Foods, EDS Technologies and Shell Energy Company. The present rate of occupancy is around 99%. Average annual gross rent (100%) is an aggregate of Can\$ 8.5 million. After deducting management and maintenance expenses, The net average annual rent is Can\$ 4 million.

In addition, land adjacent to the property, representing part of the site of the property was acquired. The price of the adjacent land (100%) is Can\$ 2 million. According to the existing approvals, it is currently permitted to construct on the land approximately 10,500 square meters for offices or housing.

A foreign financial institution has extended a loan to finance the transaction totalling Can\$ 37 million at a fixed interest rate of 5.1% for a period of five years. The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- In March 2007, a wholly-owned foreign subsidiary of the Company acquired 90% of the rights to a rental property in the city of Montreal, Canada. The acquisition price of the rental property (100%) before expenses was Can\$ 37.75 million, plus Can\$ 1.25 million of related expenses. The property is a complex comprised of three adjacent office blocks located in the city of Montreal, Canada. The total net area for rent is 28,800 square meters, as well as 435 covered parking places. The property is leased to various tenants for various periods. The present occupancy rate is around 87%. Annual gross rent (100%) is an aggregate of Can\$ 6.7 million, after deducting management and maintenance expenses. The net average annual rent is Can\$ 3.1 million.

A foreign financial institution has extended a loan to finance the transaction (100%) totalling Can\$ 30 million at a fixed interest rate of 5.41% for a period of three years. In addition, the financial institution undertook to extend a further Can\$ 4 million on fulfilling certain conditions.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

USA

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in four buildings in USA that are held at rates of 60% - 72%, that yield annual rental fees of \$27.7 million, net after management and maintenance fees - \$13.3 million.

In addition, the company holds five 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 February 2007, a wholly-owned foreign subsidiary of the Company acquired 60% of the rights to a rental property in the city of Chicago, U.S.A. The acquisition price of the property (100%), before expenses, is US\$ 152.7 million, plus related expenses of US\$ 3.6 million. The building is a prestigious (Class A) 26-storey office tower situated in the business centre in the city of Chicago, in the state of Illinois, U.S.A. The net aggregate area for rent is 66,300 square meters. The building is leased to various tenants for various periods. The present rate of occupancy is around 99%. Average annual gross rent (100%) is an aggregate of US\$ 20 million. After deducting management and maintenance expenses, The net average annual rent is US\$ 10.4 million.

A financial institution in the United States has extended a loan to finance the transaction totalling US\$ 127.4 million, representing around 83% of the price of acquiring the property, at a fixed interest rate of 5.56% for a period of 10 years.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- In February 2007, a foreign subsidiary of the Company, holding in final combination approximately 44.5% in a property in the city of Connecticut, U.S.A, sold its holdings in the property. The property sold was an office block with an area of 78,500 square meters, the rights in which were acquired by the subsidiary in November 2005. The aggregate proceeds from the sale of the property (100%) after selling and related expenses were US\$ 92.8 million and the subsidiary's share was US\$ 41.2 million.

The subsidiary's total share in the aggregate pre-tax profit in respect of the sale of the property, was US\$ 5.2 million, which was recorded in the affiliated company's statements for the year ended December 31, 2006 mainly as revenues from revaluation.

The total net cash flows attributable to the subsidiary in respect of the sale of the property, after repayment of the loan and the rest of the related expenses, are US\$ 17.8 million.
- In March 2007, a wholly-owned foreign subsidiary of the Company acquired 60% of the rights in a rental property in the city of Chicago, U.S.A. The acquisition price of the property (100%) before expenses was US\$ 79.5 million, plus related expenses of US\$ 2.7 million. The building is a 22-storey office block listed for historic preservation situated in the business centre in the city of Chicago, Illinois, U.S.A. The net aggregate area for rental is 53,900 square meters. The building is leased to various tenants for various periods. The present rate occupancy of the property is 87%. Average annual gross rent (100%) is an aggregate of US\$ 13.3 million, after deducting management and maintenance expenses. The net average annual rent (100%) is US\$ 6 million. A financial institution in the United States has extended a loan to finance the transaction (100%) in the amount of US\$ 61.1 million, with fixed interest at a rate of 5.71% for a three-year period. The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.
- In May 2007, a foreign subsidiary of the Company, holding 72% of the rights in one property and 63% of the rights in a second property in the city of Baltimore, U.S.A, Sold its holdings in corporations which hold those properties. The properties that were sold were two office blocks with an aggregate area for rental (100%) of 53,200 square meters, the rights to which were purchased by the foreign subsidiary towards the end of 2004. The aggregate proceeds from the sale of the properties (100%), net of selling expenses amounted to US\$ 76.6 million, and the foreign subsidiary's share was US\$ 49.8 million. The foreign subsidiary's share in the pre-tax aggregate pre-tax profit in respect of the sale of the properties was US\$ 4.3 million. This gain was included in the remeasurement of rental properties performed by the Company in its financial statements in previous reporting periods. The total net cash flows attributable to the foreign subsidiary in respect of the sale of the properties, after repayment of the loan and the rest of the related expenses, are US\$ 16.5 million.

Germany and Switzerland

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in twenty eight buildings that are held at rates of 50% - 100% that yield annual rental fees of €32.9m (the group share). 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 five properties under various construction stages.

- In February 2007, a wholly-owned foreign subsidiary of the Company acquired 70% of the rights in a portfolio including two rental properties in the city of Saarbrücken and a further rental property, an hotel in the city of Nuremberg, Germany.

The acquisition price of the properties in Saarbrücken (100%) before expenses was €72.5 million, and the acquisition price of the hotel (100%) before expenses was €4.6 million. The total cost of the portfolio (100%) before expenses was €77.1 million, and in addition, related expenses of €4 million. The properties in the city of Saarbrücken are two office blocks located in the business centre of the city. Their net aggregate area for rent is 62,700 square meters, as well as around 1,000 covered parking spaces. The present rate of occupancy of these two properties is around 95%. Approximately 90% of the area of these two properties is leased to Deutsche Telekom and

Deutsche Post for various periods ending in 2011 – 2017. The property in the city of Nuremberg is a 150-room hotel. The hotel is leased in full to a local hotel management company under a 10-year contract (through 2017) with no exit option.

Net annual rental of the properties in Saarbrücken (100%) is an aggregate of €6.1 million, and the net annual rental of the hotel in Nuremberg (100%) is an aggregate of €0.4 million.

The total net annual rental of the three properties (100%) is an aggregate of €6.5 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of these properties are paid by the tenants. As a result of the presentation of these two properties at their fair value at the balance sheet date, the Company included in the financial statements as of March 31, 2007 net income of US\$ 15.2 million.

A financial institution in Germany has extended a loan to finance the transaction in the amount of €69.2 million, representing 90% of the acquisition price of the properties, with fixed interest at a rate of 5.34% for a five-year period. In addition, the bank has undertaken to extend a further loan of €5 million on fulfilling certain conditions.

The loan is secured by a first-priority fixed lien on the properties and receipts from the properties, with no right of recourse for the Company.

- In February 2007, a wholly-owned foreign subsidiary of the Company acquired 70% of the rights in a rental property in the city of Frankfurt, Germany. The acquisition price of the property (100%) before expenses was €62 million, plus related expenses of €4.5 million. The building is a 22-storey office block situated in one of the business centres in the city of Frankfurt, Germany. The total net area for rental is 18,400 square meters, as well as around 400 covered parking spaces. The building is fully rented out to Ernst & Young, Accountants, under a rental contract through the end of 2015, with no exit option. The net annual rental (100%) is €4.1 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of these properties are paid by the tenant.

A financial institution in Germany has extended a loan to finance the transaction (100%) in the amount of €59 million, with fixed interest at a rate of 5.14% for a five-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- In March 2007, a wholly-owned foreign subsidiary of the Company acquired 50% of the rights to a rental property in the city of Geneva, Switzerland. The acquisition price of the rental property (100%) before expenses was Swiss Francs 17.7 million, plus related expenses of Swiss Francs 1.1 million. The property is a 7-storey office block located in the business centre in the city of Geneva, Switzerland. The net aggregate area for rental is 2,500 square meters. The building is currently mostly empty, and the partners intend to renovate and extend the building, at an estimated cost of Swiss Francs 4 million, and lease it in a process that is expected to continue for 6-12 months.

A financial institution in Switzerland has extended a loan to finance the transaction (100%) totalling Swiss Francs 10.7 million at a variable interest rate, currently 2.90%, for an unspecified period available for repayment at any given time at no cost.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- In March 2007, a wholly owned foreign subsidiary of the Company acquired 100% of a rental property in the city of Schwerin, Germany. The acquisition price of the property before expenses was € 30.9 million, plus related expenses of € 2.4 million. The property is 4-storey office block situated in the city of Schwerin, Germany. The net aggregate area for rental is 14,560 square meters, as well as 200 covered parking spaces. The building is fully rented to a government medical insurance company (AOK Insurance) in a rental contract through June 2022 (about 15.3 years) with no exit option. The net annual rent is an aggregate of € 2.0 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of the property are paid by the tenants.

A financial institution in Germany has extended a loan to finance the transaction totalling € 27.8 million, representing approximately 90% of the acquisition price of the asset, at fixed interest at a rate of 5.25% for a seven-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- In March 2007, a foreign company, held at a rate of 42.5 % by a wholly-owned subsidiary of the Company and 42.5% by a foreign company from the Property and Building Ltd. Group, acquired the rights to a rental property in the city of Cologne, Germany. The acquisition price of the rental property (100%) including expenses was € 106.7 million. The property is a technological park, containing 15 buildings close to the city of Cologne, Germany. The aggregate area of the park is 127 dunams, and the net area for rental is 72,000 square meters, as well as 1,600 parking spaces. In addition, there are additional building rights in the park for 50,000 square meters. The park is fully leased to various tenants for various periods, and is managed by a management company specialized in the area of technological park management. Annual gross rent (100%) is an aggregate of € 7.6 million, after deducting management and maintenance expenses. The net annual rent (100%) is € 7.25 million. The rental contracts include an incremental mechanism for the rent in accordance with the consumer price index in Germany.

A financial institution in Germany has extended a loan to finance the transaction (100%) totalling € 93.7 million at a fixed interest rate of 5.25% for a five-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- In April 2007, a wholly-owned foreign subsidiary of the Company acquired 60% of the rights in a rental property in the city of Frankfurt, Germany. The acquisition price of the property (100%) before expenses was € 200 million, plus related expenses of approximately € 17 million. The property is brand new, luxury office block, whose construction was completed in 2003, situated in the business centre of the city of Frankfurt, Germany. Its net aggregate area for rental is 35,500 square meters, as well as 350 covered parking spaces. The building is fully leased to Dresdner Bank, which is one of largest banks in Germany and belongs to the European financial group, Allianz, in a rental contract through June 2013 with no exit option. The tenant has an option to extend the rental period for a further 5 years. The net annual rent (100%) is an aggregate of € 14million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of the property are paid by the tenant.

An overseas financial institution has extended a loan to finance the transaction (100%) totalling € 193.5 million at fixed interest at a rate of 5.43% for a seven-year period. Of this amount, € 5.0 million was placed as a deposit, which will be released on fulfilling certain conditions. The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

Another financial institution extended a further loan for the transaction (100%) totalling € 11.8 million at a variable interest rate of LIBOR + 2% for a seven-year period, plus an exit commission, the amount of which is dependent on the gain to be generated in the project on its future sale.

The loan is secured by a second priority fixed lien on the property and the receipts from the property, with no right of recourse for the Company.

- In May 2007, a wholly owned foreign subsidiary of the Company acquired 60% of the rights in a rental property in the city of Frankfurt, Germany. The acquisition price of the property (100%) including expenses was € 40 million. The property is a building combining commercial areas and 62 housing units, situated in one of the main commercial streets in the city of Frankfurt, Germany. The net aggregate area for rental is 24,600 square meters, as well as 200 covered parking spaces. The commercial area, constituting approximately 90% of the entire area of the property and of the revenues therefrom, are fully leased to a retail chain of the Metro group, in a rental contract through December 2013 with no exit option. The housing units are fully leased to various tenants. The net annual rent (100%) is an aggregate of € 2.5 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of the property are paid by the tenants.

An overseas financial institution has extended a loan to finance the transaction (100%) totalling € 32.5 million at a variable interest rate, currently 5.18%, for a five-year period, with maximum interest (cap) protection, not to exceed 5.40%.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

France

As of the balance sheet date, the Company does not own any properties in France.

- In February 2007, a subsidiary of the Company, in which Company has a 42.5% final cumulative holding, sold its holdings in a logistical centre in France, after the preconditions set forth in the sales contract signed in November 2006 had been concluded. The results of the sale were reflected in the Company's statement of operations for the year ended December 31, 2006 under the heading of revaluation based on selling price.

India

- In January 2007, the company in Mauritius, through an Indian subsidiary, entered into a memorandum of understanding for the acquisition of land on an area of 140 dunams in the city of Hyderabad, India. The company in Mauritius will hold around 95% of the rights in the aforesaid venture (hereinafter, "the joint venture"), with the remainder held by the local partner. The aggregate cost of acquisition of the land amounted to approximately US\$ 23.4 million, with the Company's share in the acquisition amounting to US\$ 10.2 million, which will be financed from own resources. The joint venture intends to plan and erect buildings on the land, to be used for mixed purposes, mainly for offices and logistics, on a total area of 280,000 square meters. The joint company estimates that the aggregate cost of the project will amount to approximately US\$ 140 million. The company in Mauritius intends to finance the remainder of its investments in the project by foreign finance.
- In February 2007, the company in Mauritius, through an Indian subsidiary, acquired a plot of land of approximately 100 dunams in the city of Hyderabad, India. The company in Mauritius holds 90% of the rights in the Indian company, with the remainder held by a local partner, which will be entitled to increase its holding in the Indian company by a further 10%. The aggregate cost of acquiring the land amounted to US\$ 30.6 million, with the subsidiary's share amounting to US\$ 13.8 million, which will be financed by own resources. The designation of the land is for housing and around 2,300 housing units can be built on it, with a total scope of 300,000 square meters. The project will be constructed in stages depending on demand and the actual marketing of the housing units. According to the assessment of the company in Mauritius, the total cost of the investment in the project will amount to US\$ 150 million. The company in Mauritius intends to finance the remainder of its investments in the project by foreign finance.

B. Financial Position

Total assets as of the balance sheet date amounted to \$1,673.9 million, compared to \$1,260.2 million at the end of 2006. The net increase (after deduction of assets sold during the reporting period in the United States and Europe) is primarily attributable the significant increase in the Company's activity and its business expansion in the markets of activity, with an investment in rental properties in Germany, Switzerland, the United States, Canada and India.

Current assets

Total current assets as of the balance sheet date amounted to \$74.5 million, compared to \$89.4 million as of the end of 2006. Most of the decrease is attributable to a decrease in cash used to make investments in rental properties.

Long-term investments

Long-term investments on March 31, 2007 amounted to \$228.1 million as compared with \$227.2 million on December 31, 2006.

Yielding assets

Total yielding assets on March 31, 2007 amounted to \$1371.3 million as compared with \$943.6 million on December 31, 2006. The increase stems mainly from an investment in a yielding asset in Germany, Switzerland, USA and Canada.

The Company's share in the yielding assets of its affiliates as of the balance sheet date totals \$312.2 million.

Current liabilities

Total current liabilities on March 31, 2007 amounted to \$197.4 million as compared with \$139.1 million on December 31, 2006. The increase is primarily attributable to the creditors in respect of new rental properties in Germany, Switzerland, USA and Canada and an increase in credit received by the Company for their acquisition.

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 \$1178.7 million as compared with \$828.5 million on December 31, 2006. The increase resulted mostly from loans obtained for investment in yielding assets in Germany, Switzerland, USA, Canada and India. On March 31, 2007 the bank loans, which amounted to \$871.6 million, constituted non-recourse loans secured by a first-tier lien on the asset and the receipts in respect thereof. The Company's share in the bank loans of its affiliates as of the balance sheet date totals \$227.8 million. These are non-recourse loans.

Shareholders' equity

The Company's shareholders' equity at the balance sheet date was \$297.9 million compared to \$292.6 million at the end of 2006. See statement of changes in shareholders' equity in the financial statements.

The shareholders' equity of the Company as of March 31, 2007 includes accumulated amortization to \$14.8 million in respect of index-linked options, which were issued to the public and which are presented as a liability at their fair value in accordance with international accounting principles. On the exercise date of the options, the balance of this liability will be carried directly to the Company's shareholders' equity and the capital will be increased accordingly. (The Company's shareholders' equity as of March 31, 2007 with out the amortization of the options was \$312.9 million.)

C. Results of operations

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

	Quarter 1-3/07	Quarter 10-12/06	Quarter 7-9/06	Quarter 4-6/06	Quarter 1-3/06
Revenues from rental fees, management fees, and other	28,422	22,833	18,179	16,438	15,412
Revaluation of yielding assets	18,007	19,261	11,621	10,606	11,979
Company's share in earnings of affiliates, net	(221)	7,375	9,011	13,628	3,120
Gain (loss) from realization of assets and investments	86	1,123	-	(317)	-
Total revenues	46,294	50,592	38,811	40,354	30,511
Operating expenses and maintenance fees	9,915	8,129	6,688	5,303	5,803
general and administrative expenses	3,132	5,259	1,816	2,168	807
Financing expenses, net	12,161	8,160	7,130	7,372	5,062
Financing expenses in respect of revaluation of index-linked options	3,821	2,562	3,240	276	2,853
Total costs and expenses	29,029	24,110	18,874	15,119	14,525
Pre-tax income	17,265	26,482	19,937	25,237	15,986
Income taxes	4,972	6,240	4,084	3,661	4,277
Net income	12,293	20,242	15,853	21,575	11,709
Attributed to:					
The Company's shareholders	12,276	19,435	15,814	21,635	11,376
Minority interests	17	807	39	(60)	333
Net income	12,293	20,242	15,853	21,575	11,709

Revenues

Total revenues of the Company in the first quarter of 2007 (hereinafter, "the reporting period") amounted to \$46.3 million, compared to \$30.5 million in the corresponding quarter last year.

The Company's revenues in the reporting period includes revenues from rent, amounting to \$28.4 million compared to \$15.4 million in the corresponding period last year. The increase is primarily attributable to the acquisition of new properties in the Company's markets of operation, and an increase in the shareholding percentages in affiliated companies, which are presented this quarter as jointly controlled companies (including on the basis of proportion consolidation).

In addition, the Company's revenues in the reporting period include a gain on the revaluation of rental properties totalling \$18 million, compared to \$12 million in the corresponding period last year.

Financing expenses

In the report period, financing expenses totaled \$12.2 million, compared with \$5.1 million in the same period last year. The financing expenses in the report period include \$8.7 million for long-term loans taken from overseas financial institutions to finance yielding assets overseas. These loans are secured by a fixed lien on the buildings. The Company did not guarantee, nor did it furnish additional collateral for these loans. The increase in financing expenses is due mainly to the increase in long-term loans taken to acquire new assets.

Financial expenses in respect of revaluation of index-linked options issued to the public

As a result of the transition to international financial reporting standards (as outlined in the Report of the Board of Directors as of December 31, 2006), the Company presents complex financial instruments at their fair value. Accordingly, index-linked convertible options issued to the public in August 2005 are presented as liabilities of the Company.

In accordance with the requirements of the international principles, the Company recorded an expense in the statement of operations under the heading of "revaluation of index-linked options" in the reporting period totalling \$3.8 million, compared to \$2.9 million in the corresponding period last year. Total cumulative financial expenses charged to the Company's statement of operations as of March 31, 2007 in respect of this item amounted to \$14.8 million. This expense has no impact on the Company's cash flows.

Net income

The net income of the Company in the reporting period amounted to \$12.3 million, compared to \$11.7 million in the corresponding period last year. (The Company's net income in the reporting period offset by the effect of the item "financial expenses in respect of the revaluation of index-linked options", as noted above, amounted to \$16.1 million, compared to \$14.6 million in the corresponding period last year.)

Cash flows used in operating activities

During the reported period operating activities provided the Company with cash flows totaling \$5.7 million, as compared with \$3.2 million in the same period last year.

Cash flows used in investment activities

Cash flows used for investing activities in the reporting period amounted to \$346.9 million, compared to \$72.4 million in the corresponding period last year. The increase is primarily attributable to investments in Europe, the USA, Canada and India.

Cash flows provided by financing activities

Cash flows from financing activities during the reported period, which amounted to \$316.4 million, compared with \$70.6 million in the same period last year, have been primarily affected by financing new investments activities in Europe, USA, Canada and India.

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 (or 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 during the reported period of 2006 amounted to \$5.7m as compared with \$5.2m in the same period last year, an increase of 9%.

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:

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	In thousands US dollars		
Net income - attributed to the Company's shareholders	<u>12,276</u>	<u>11,376</u>	<u>68,260</u>
Adjustments:			
Net gain (loss) from the realization of assets and investments	(77)	-	(552)
Amortization	18	180	695
Revaluation of CPI-linked options	3,822	2,853	8,038
Revaluation of yielding assets	(11,719)	(8,324)	(34,036)
Adjustments in respect of minority interest in subsidiaries	-	192	420
Adjustments in respect of the Company's share in earnings of affiliates (*)	1,379	(1,054)	(21,103)
Other	-	-	23
Total adjustments	<u>(6,577)</u>	<u>(6,153)</u>	<u>(46,515)</u>
F.F.O	<u>5,699</u>	<u>5,223</u>	<u>21,745</u>

(*) Stemming mainly from adjustments in respect of revaluation of yielding assets, net after related expenses.

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

Company's policy and method for managing business risk

The Company uses the following means for reducing its business 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.

Officers responsible for managing market risks

The management of market risks by the Company is conducted by the Company's Chief Executive Officer, the Chief Financial Officer and the Business Development Manager. For details regarding risk factors to which the Company is exposed, see paragraph 30 of the report, Business Description of the Company as of December 31, 2006.

H. Sensitivity analysis for sensitive instruments, in accordance with change in market factors

See the appendix A, attached hereto.

I. Linkage Basis Report

See the appendix B, attached hereto.

h. Accounting estimates – see Report of the Board of Directors of the Company as of December 31, 2006

E. Events during the balance period

On February 13, 2007, the parent company, Electra Ltd., announced its intention to consider a restructuring of the Company, whereby the Company will be spun-off from the parent company and become a sister company. If and when this process will be carried out, shares of the Company will be issued to the shareholders of the parent company. The process, if and when it is carried out, will be subject to the approvals required by law, including the approval of the Company's shareholders.

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

Shlomo Sherf
CEO

Gershon Salkind
Chairman of the Board of Directors

May 15, 2007

Appendix A

Sensitivity tables to sensitive instruments in regards to changes in market factors

Sensitivity to changes in currencies:

Sensitivity to changes in the US Dollar interest					
	Increase of:		Fair value (\$'000)	Decrease of:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)			Profit (loss) (\$'000)	
Financial Instruments					
Long-term loans to finance yielding assets	3,724	1,884	112,415	(1,931)	(3,911)

Sensitivity to changes in the Euro interest					
	Increase of:		Fair value (\$'000)	Decrease of:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)			Profit (loss) (\$'000)	
Financial Instruments					
Long-term loans to finance yielding assets	5,028	2,534	204,118	(2,576)	(5,194)

Sensitivity to changes in the Canadian Dollar interest					
	Increase of:		Fair value (\$'000)	Decrease of:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)			Profit (loss) (\$'000)	
Financial Instruments					
Long-term loans to finance yielding assets	774	389	43,548	(394)	(791)

Sensitivity to changes in cash flow due to changes in variant interest:

	Increase in rate of interest:		Fair value (\$'000)	Decrease in rate of interest:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)			Profit (loss) (\$'000)	
Financial Instruments					
Long-term loans to finance yielding assets	(489)	(232)	4,404	210	400

Assumptions:

1. The sensitivity test for long term loans with variant interest rate was executed only for the permanent component of that interest.
2. The annual interest rate that has being used for the calculation of the fair value of the loans and debentures, is in accordance with interest rate that the company has received or could have received for loans with similar extent, at the Balance Sheet date

Appendix B

Balance sheet linkage basis - March 31, 2007
(Table 1)

	Linked to Foreign currency(*)	CPI- linked	Unlinked	Balance	Balance- sheet total
	(in thousand US dollars)				
Cash and cash equivalents	26,805	-	8,128	-	34,933
Short-term deposits	20,570	-	36	-	20,606
Marketable securities	888	5,271	1,181	-	7,340
Trade accounts receivable	3,573	-	286	-	3,858
Receivables and other current assets	2,638	-	839	4,252	7,730
Current tax assets	58	-	-	-	58
Inventory of land	-	-	-	12,647	12,647
Investments in affiliates	45,229	-	619	67,861	113,709
Other investment	43,357	-	-	25,994	69,351
Loans and Long-term receivables	31,183	-	24	-	31,207
Deferred income taxes	-	-	-	706	706
Fixed assets	-	-	-	441	441
Yielding assets	-	-	-	1,371,312	1,371,312
Total assets	174,301	5,271	11,113	1,483,213	1,673,898
Loans to finance yielding properties (including current maturities of long-term loans)	120,871	-	12,038	-	132,909
Trade accounts payable	4,645	-	798	-	5,444
Payables and other current liabilities	38,079	-	18,637	-	56,717
Current tax liabilities	2,094	198	-	-	2,292
Loans for financing yielding assets in- Israel	-	-	10,822	-	10,821
Britain	60,186	-	-	-	60,186
North America	374,590	-	-	-	374,590
Europe	491,172	-	-	-	491,172
Debentures	-	123,486	-	-	123,486
Loan from affiliate company	994	-	-	-	994
Loan from Electra Group companies	23,667	-	-	-	23,667
Loans from minority shareholders in subsidiaries	4,439	-	-	-	4,439
Liabilities in respect of index-linked options	-	-	-	14,768	14,768
Long-term loan to finance development project	-	-	12,635	-	12,635
Employee benefit liability, net	-	-	-	464	464
Deferred income taxes	-	-	-	61,433	61,433
Minority interest	-	-	-	7,964	7,964
Total liabilities	1,120,737	123,684	54,930	84,629	1,383,981
Net balance sheet amount	(946,436)	(118,413)	(43,817)	1,398,584	289,917
Classification of balances linked to the functional currencies of autonomous units	934,733	-	-	-	934,733
Total exposure of assets (liabilities)	(11,703)	(118,413)	(43,817)	1,398,584	1,224,650

Appendix B (CONT.)

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

	US Dollar	Sterling	Euro	Canadian dollar	Other	Linked to foreign currency
	(in thousand US dollars)					
Cash and cash equivalents	960	1,714	15,703	6,706	1,723	26,805
Short-term deposits	6,822	-	9,324	3,795	630	20,570
Marketable securities	432	189	266	-	-	888
Trade accounts receivable	1,450	-	476	1,303	344	3,573
Receivables and other current assets	198	289	1,855	295	-	2,638
Current tax assets	-	-	-	-	58	58
Inventory of land	-	-	-	-	-	-
Investments in affiliates	34,458	-	10,771	-	-	45,229
Other investment	-	43,357	-	-	-	43,357
Long-term receivables	4,935	1,714	19,202	5,286	45	31,183
Deferred income taxes	-	-	-	-	-	-
Fixed assets, net	-	-	-	-	-	-
Yielding assets, net	-	-	-	-	-	-
Total assets	49,255	47,263	57,597	17,385	2,800	174,301
Short-term bank borrowings to finance yielding assets	29,444	10,945	36,097	37,586	6,799	120,871
Trade accounts payable	-	-	1,469	3,175	2	4,645
Payables and other current liabilities	4,952	6,043	14,962	10,883	1,240	38,079
Current tax liability	1,083	-	1,011	-	-	2,094
Long-term loans to finance yielding assets in-						
Israel	-	-	-	-	-	-
Britain	-	60,186	-	-	-	60,186
North America	184,640	-	-	189,949	-	374,590
Europe	-	-	424,734	-	66,439	491,172
Debentures	-	-	-	-	-	-
Loan from affiliate company	-	-	994	-	-	994
Loan from Electra Group companies	-	-	1,329	22,338	-	23,667
Loans from minority shareholders in subsidiaries	-	-	-	4,439	-	4,439
Liabilities in respect of index-linked options	-	-	-	-	-	-
Long-term loan to finance development project	-	-	-	-	-	-
Employee benefit liability	-	-	-	-	-	-
Deferred income taxes	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Total liabilities	220,119	77,174	480,596	268,370	74,480	1,120,737
Net balance sheet amount	(170,864)	(29,911)	(422,999)	(250,985)	(71,680)	(946,436)
Classification of balances linked to the functional currencies of autonomous units	159,161	29,911	422,999	250,985	71,680	934,733
Total exposure of liabilities	(11,703)	-	-	-	-	(11,703)

The Board of Directors
Electra Real Estate Ltd.
Tel - Aviv

Re: Special review report on the unaudited condensed interim consolidated financial statements of Electra Real Estate Ltd. at March 31, 2007 and for the three months period then ended

At your request, we have reviewed the condensed interim consolidated balance sheet of **Electra Real Estate Ltd.** ("the Company") and its subsidiaries at March 31, 2007, and the related condensed interim consolidated statements of operations, changes in shareholders' equity and cash flows for the three months period then ended (in the Hebrew language, not included herein) and have issued our accountants review report thereon dated May 15, 2007.

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

As noted in our aforementioned review report, we were furnished review reports of other accountants concerning the review of interim financial statements of consolidated subsidiaries whose assets constitute 71% of the total consolidated balance at March 31, 2007 and revenues 86% of the total consolidated revenues, for the three months period then ended. We did not review the financial statements of investee companies, in which the Company's investment as of March 31, 2007 amounted to \$47,167 thousand and the Company's share in their results amounted to \$116 and thousand for three months 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 NIS financial statements into US dollars in condensed form solely for the convenience of the reader ("convenience translation"), using the representative dollar exchange rate in effect on March 31, 2007. Comparative figures for the three months period ended March 31, 2006 and for the year ended December 31, 2006 represent a translation of the original NIS values of the respective period, using the representative dollar exchange rate in effect on March 31, 2007. These condensed interim financial statements do not include all the disclosures necessary for presentation of the financial statements in conformity with generally accepted accounting principles.

In our opinion, the convenience translation in condensed form referred to above has been made in accordance with the basis described in Note 1.

Brightman Almagor & Co.
Certified Public Accountants

Tel-Aviv, May 15, 2007

ELECTRA REAL ESTATE LTD.

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

	March 31,		December 31,
	2007	2006	2006
	In thousands		In thousands
ASSETS			
<u>Current assets</u>			
Cash and cash equivalents	34,933	17,962	59,974
Short-term deposits	20,606	3,778	10,936
Marketable securities	7,340	25,634	10,554
Trade accounts receivable	3,858	2,161	1,813
Current tax assets	58	249	112
Receivables and other current assets	7,730	5,988	6,033
	74,525	55,772	89,422
<u>Un-current assets</u>			
Investments in affiliates	113,709	96,381	135,366
Loans and long-term receivables	31,207	20,365	49,705
Fixed assets	441	282	456
Inventory of land	12,647	9,307	12,209
Other investment	69,351	16,750	28,734
Deferred income taxes	706	524	728
	228,061	143,609	227,198
<u>Yielding assets in -</u>			
Israel	169,242	130,378	137,484
Britain	61,317	67,768	57,846
North America	520,276	248,974	321,354
Europe	620,477	148,122	426,926
	1,371,312	595,242	943,610
	1,673,898	794,623	1,260,230

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

ELECTRA REAL ESTATE LTD.

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

	March 31,		December 31,
	2007	2006	2006
	In thousands		In thousands
LIABILITIES AND EQUITY			
<u>Current liabilities</u>			
Loans to finance yielding properties (including current maturities of long-term loans)	132,909	96,700	99,624
Current tax liabilities	2,292	875	1,393
Trade accounts payable	5,444	3,455	3,056
Payables and other current liabilities	56,717	18,280	35,050
	<u>197,362</u>	<u>119,310</u>	<u>139,123</u>
<u>Un-current liabilities</u>			
Debentures	123,486	84,249	123,945
Long-term loans to finance development projects	12,635	-	11,856
Liabilities in respect of index-linked options	14,768	6,714	10,947
Loans from Electra Group companies	23,667	27,659	23,620
Loans from minority shareholders in subsidiaries	4,439	3,904	3,697
Loan from affiliate company	994	-	25,620
Employee benefit liability, net	464	-	456
Deferred income taxes	61,433	31,425	54,093
	<u>241,886</u>	<u>153,951</u>	<u>254,234</u>
<u>Loans for financing yielding assets in -</u>			
Britain	60,186	45,429	35,034
North America	374,590	147,275	199,793
Europe	491,172	116,115	334,351
Israel	10,821	-	5,081
	<u>936,769</u>	<u>308,819</u>	<u>574,259</u>
<u>Equity</u>			
Equity attributable to the Company's shareholders	289,917	203,714	283,938
Minority interests	7,964	8,829	8,676
Total equity	<u>297,881</u>	<u>212,543</u>	<u>292,614</u>
	<u>1,673,898</u>	<u>794,623</u>	<u>1,260,230</u>

Approval date of the financial statements

Tel - Aviv, May 15, 2007

**Zvi Duskin
CFO**

**Shlomo Sherf
CEO**

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

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

	Three months ended March 31,		Year ended
	2007	2006	December 31,
	In thousands		2006
	In thousands		In thousands
Revenues			
Rental fees, management fees and others	28,422	15,412	72,862
Revaluation of yielding assets	18,007	11,979	53,467
Gain from realization of investments and yielding assets	86	-	806
Company's share in earnings of affiliates, net	(221)	3,120	33,134
Total revenues	46,294	30,511	160,269
Costs and Expenses			
Operating expenses and maintenance fees	9,915	5,803	25,923
General and administrative expenses	3,132	807	10,050
Financing expenses	13,085	5,560	29,934
Financing income	(924)	(498)	(2,210)
Revaluation of liabilities in respect of index-linked options	3,821	2,853	8,931
Total costs and expenses	29,029	14,525	72,628
Pre-tax income	17,265	15,986	87,641
Income taxes	4,972	4,277	18,262
Net income for the period	12,293	11,709	69,379
Attributable to:			
The Company's shareholders	12,276	11,376	68,260
Minority interests	17	333	1,119
Net income for the period	12,293	11,709	69,379
Earnings per share (in dollars) attributed to the Company's shareholders:			
Basic	2.03	2.00	11.89
Diluted	2.01	2.00	11.63

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

Three months ended March 31, 2007

	Share Capital	Share premium	Capital reserve from foreign currency translation adjustment	Share-based payments	Other reserves	Retained earnings	Total shareholders' equity	Minority Interests	Total equity
	(In thousands)								
Balance - January 1, 2007	355	100,767	1,924	672	7,829	172,391	283,938	8,676	292,614
Adjustments on the translation of financial statements of overseas activities	-	-	(6,745)	-	-	-	(6,745)	(104)	(6,849)
Loss on cash flow hedges	-	-	-	-	347	-	347	-	347
Total income recognized directly in equity	-	-	(6,745)	-	347	-	(6,398)	(104)	(6,502)
Net income for the period	-	-	-	-	-	12,276	12,276	17	12,293
Total income for the year	-	-	(6,745)	-	347	12,276	5,878	(87)	5,791
Share-based payment	-	-	-	101	-	-	101	-	101
Dividend paid to minority interests	-	-	-	-	-	-	-	(625)	(625)
Balance – March 31, 2007	<u>355</u>	<u>100,767</u>	<u>(4,821)</u>	<u>773</u>	<u>8,176</u>	<u>184,667</u>	<u>289,917</u>	<u>7,964</u>	<u>297,881</u>

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

Three months ended March 31, 2006

	Share Capital	Share premium	Capital reserve from foreign currency translation adjustment	Share-based payments	Retained earnings	Total shareholders' equity	Minority Interests	Total equity
	(In thousands)							
Balance - January 1, 2006	(*)	76,916	8,805	183	104,131	190,035	8,500	198,535
Adjustments on the translation of financial statements of overseas activities	-	-	2,182	-	-	2,182	-	2,182
Total income recognized directly in equity	-	-	2,182	-	-	2,182	-	2,182
Net income for the period	-	-	-	-	11,376	11,376	333	11,709
Total income for the year	-	-	2,182	-	11,376	13,558	333	13,891
Share-based payment	-	-	-	121	-	121	-	121
Dividend paid to minority interests	-	-	-	-	-	-	(4)	(4)
Balance - March 31, 2006	(*)	76,916	10,987	304	115,507	203,714	8,829	212,543

(*) Less than \$1 thousand.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

year ended December 31, 2006

	Share Capital	Share premium	Capital reserve from foreign currency translation adjustment	Share-based payments	Other reserves	Retained earnings	Total shareholders' equity	Minority Interests	Total equity
	(In thousand U.S. dollars)								
Balance - January 1, 2006	(*)	76,916	8,805	183	-	104,131	190,035	8,500	198,535
Adjustments on the translation of financial statements of overseas activities	-	-	(6,881)	-	-	-	(6,881)	(210)	(7,091)
Revaluation of available for sale assets	-	-	-	-	(***) 8,731	-	8,731	-	8,731
Loss on cash flow hedges	-	-	-	-	(902)	-	(902)	-	(902)
Total income recognized directly in equity	-	-	(6,881)	-	7,829	-	948	(210)	738
Net income for the year	-	-	-	-	-	68,260	68,260	1,119	69,379
Total income for the year	-	-	(6,881)	-	7,829	68,260	69,208	909	70,117
Issuance of shares (**)	355	23,851	-	-	-	-	24,206	-	24,206
Share-based payment	-	-	-	489	-	-	489	-	489
Dividend paid to minority interests	-	-	-	-	-	-	-	(733)	(733)
Balance – December 31, 2006	<u>355</u>	<u>100,767</u>	<u>1,924</u>	<u>672</u>	<u>7,829</u>	<u>172,391</u>	<u>283,938</u>	<u>8,676</u>	<u>292,614</u>

(*) Less than \$1 thousand.

(**) Net of issuance expenses.

(***) Net after tax - \$2,910 thousand.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	In thousands		In thousands
Cash Flow - Operating Activities:			
Net income	12,293	11,709	69,379
Adjustments required to present cash flows from operating activities (Appendix A)	(6,617)	(8,500)	(54,259)
Net cash provided by operating activities	<u>5,676</u>	<u>3,209</u>	<u>15,120</u>
Cash Flows - Investing Activities:			
Realization of (investment in) marketable securities, net	3,658	(1,187)	14,570
Long-term loans granted	(7,104)	(3,579)	(2,766)
Collection of long-term debts (also from affiliated company)	-	8	-
Proceeds from the sale of investees that were proportionately consolidated (Appendix B)	5,922	-	6,553
Realization of (investment in) short-term deposits, net	(9,696)	(874)	(8,511)
change in deposits designated for yielding assets	24,770	(7,548)	(17,019)
Investments in shares of affiliates and other companies	(32,478)	-	(15,589)
Initial full consolidation of a subsidiary that was proportionately consolidated in the past (Appendix C)	-	-	(2,375)
Initial full consolidation of an affiliate (Appendix D)	-	-	(5,074)
Initial full consolidation of a subsidiary (Appendix E)	(6,469)	-	(17,053)
Acquisition and construction of yielding assets	(325,454)	(59,081)	(244,499)
Acquisition of fixed assets and other assets	(5)	(162)	(1,372)
Proceeds from disposition of yielding properties	-	-	7,587
Net cash used in investing activities	<u>(346,856)</u>	<u>(72,423)</u>	<u>(285,548)</u>
Cash Flows - Financing Activities:			
Issuance of debentures and options for debentures, net of related expenses	-	-	40,226
Dividend paid to minority shareholders in a subsidiary	(625)	-	(733)
Issuance of shares, net of issuance expenses	-	-	22,363
Receipt of long-term loans	315,704	59,692	232,974
Repayment of long-term loans	(2,929)	(865)	(6,082)
Receipt (Repayment) of loans and capital notes from the Electra Group companies, net	-	317	(1,452)
Receipt of loans and capital notes from minority shareholders in consolidated subsidiaries, net	870	113	266
Receipt (Repayment) of loan and capital notes from an affiliate company	(24,770)	-	25,620
Receipt of short-term bank borrowings, net	28,124	11,362	961
Net cash provided by financing activities	<u>316,374</u>	<u>70,619</u>	<u>314,143</u>
Translation differences relating to cash balances in autonomous units	<u>(235)</u>	<u>234</u>	<u>(64)</u>
Increase (decrease) in cash and cash equivalents	(25,041)	1,639	43,651
Cash and cash equivalents at beginning of period	59,974	16,323	16,323
Cash and cash equivalents at end of period	<u>34,933</u>	<u>17,962</u>	<u>59,974</u>

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

	Three months ended		Year ended
	March 31,		December 31,
	2007	2006	2006
	In thousands		In thousands
<u>Appendix A - Adjustments required to present cash flows from operating activities:</u>			
Expenses (income) not involving cash flows:			
Company's share in earnings of affiliates, net	2,147	(03,12)	(33,134)
Depreciation and amortization	20	149	655
Revaluation of yielding assets	(18,007)	(11,979)	(53,467)
Change in value of long-term receivables and liabilities, net (including interest charged to the parent company)	(1,205)	(519)	(2,941)
Deferred income taxes	4,186	3,861	17,053
Capital gain from realization of investments and sales of assets	(86)	-	(806)
Gain from marketable securities	(444)	(386)	(1,063)
Recording of expenses in connection with options which were granted to officers	101	121	489
Revaluation of liabilities in respect of index-linked options	3,821	2,853	8,931
Changes in assets and liabilities:			
Trade accounts receivables	(1,814)	(1,123)	(855)
Receivables and other current assets	(1,368)	625	336
Trade accounts payables	1,887	1,232	985
Payables and other current liabilities	4,145	(214)	9,558
	(6,617)	(8,500)	(54,259)
<u>Appendix B - Proceeds from the sale of investees that were proportionately consolidated</u>			
Net assets and liabilities at acquisition:			
Net working capital (excluding cash)	(919)	-	(1,080)
Fixed assets and other assets, net	-	-	20
Yielding assets, net	14,652	-	24,058
Long-term liabilities	(7,897)	-	(16,370)
Gain (Loss) from investment realization	86	-	(75)
	5,922	-	6,553
<u>Appendix C - Initial full consolidation of a subsidiary that was proportionately consolidated in the past</u>			
Net assets and liabilities at acquisition:			
Net working capital (excluding cash)	-	-	167
Fixed assets and other assets	-	-	(657)
Yielding assets, net	-	-	(18,664)
Long-term receivables	-	-	(1,885)
Long-term liabilities	-	-	18,664

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

- - (2,375)
CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO U.S. DOLLARS

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	In thousands		In thousands

Appendix D - Initial full consolidation of an affiliate

Net working capital (excluding cash)	8,450	-	511
Fixed assets and other assets	-	-	(2,056)
Yielding assets, net	(28,288)	-	(31,001)
Investment in affiliates	11,584	-	7,559
Long-term liabilities	8,254	-	19,913
	-	-	(5,074)

Appendix E - Initial full consolidation of a subsidiary

Net working capital (excluding cash)	1,534	-	804
Yielding assets, net	(61,594)	-	(128,439)
Long-term liabilities	53,591	-	110,582
	(6,469)	-	(17,053)

Appendix F - Supplementary cash flow information

Cash paid during the year:

Interest	8,377	4,589	24,269
Income taxes	47	17	116
	8,424	4,606	24,385

Cash received during the year:

Interest	220	135	688
Income taxes	-	110	500
	220	245	1,188

The accompanying notes are an integral part of the financial statements

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

Note 1 - Reporting principles and accounting policies

A. General

The interim consolidated financial statements of the Company have been prepared in a condensed format in conformity with International Accounting Standard No. 34, and in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, except for the regulations that do not meet the implementation of the IFRS, or what is permitted thereby.

These statements should be reviewed in conjunction with the Company's annual statements as of December 31, 2006 and for the year then ended and the notes related thereto.

The principal accounting policies have been applied in these interim statements on a basis consistent with those applied in the annual statements as of December 31, 2006, except for the implementation of International Accounting Standards, which came into effect from January 1, 2007. Accordingly, Amendment to IAS 1: Disclosures on Capital and IFRS 7: Financial Derivatives – Disclosure, have been adopted by the Company in preparing the financial statements as of March 31, 2007. The adoption of these accounting standard have no significant impact on the Company's financial statements.

These interim financial statements are presented in US dollars, derived from convenient translation of the financial statements prepared in NIS, into US dollars by using the conversion rate prevailing on March 31 ,2007 (\$1.00= NIS 4.155).

The accompanying English-language condensed interim consolidated financial statements in US dollars represent a translation of the above-mentioned NIS financial statements into US dollars in condensed form solely for the convenience of the reader ("convenience translation"), using the representative dollar exchange rate in effect on March 31 ,2007. Comparative figures for the three months period ended March 31, 2006 and for the year ended December 31, 2006 represent a translation of the original NIS values of the respective period, using the representative dollar exchange rate in effect on March 31 ,2007. These condensed interim financial statements do not include all the disclosures necessary for presentation of the financial statements in conformity with generally accepted accounting principles.

B. Initial adoption of International Financial Reporting Standards in the financial statements for 2006

The Company has, for the first time, adopted the International Financial Reporting Standards (IFRS) in the financial statements for 2006.

In the financial statements for 2006, IFRS 1 has been adopted, which provides the transition provisions for the initial reporting pursuant to IFRS. IFRS 1 grants reliefs on certain issues by way of the non-application of the obligation of retroactive implementation in respect thereof. In applying the transition provisions by virtue of IFRS 1, the Company did not choose either of the reliefs permitted thereby.

Pursuant to IFRS 1, at the transition date (January 1, 2005), the Company implemented the IFRS standard in force as of December 31, 2006 for all reporting periods presented in its financial statements. Prior to the adoption of the IFRS standards, the Company prepared its statements in conformity with generally accepted accounting principles in Israel.

See Note 4 regarding an explanation of the transition from reporting pursuant to generally accepted accounting principles in Israel to reporting pursuant to IFRS standards, as of March 31, 2006 and for the three-months period then ended.

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

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

C. New financial reporting standards and interpretations that were published but have not yet taken effect

Presented below are new financial reporting standards and interpretations that were issued by the IASB and the IFRIC, respectively, as of the approval date of these financial statements, which have not yet taken effect:

1. IFRS 8: Operations derivatives

The standard is effective with regard to annual financial reporting periods commencing January 1, 2009 or thereafter. Early application is recommended and subject to the provision of disclosure in this regard.

2. IFRIC 2, IFRIC 11: Transactions in a Group and Treasury Stock

The Interpretation takes effect for annual financial reporting periods commencing on or after March 1, 2007.

Early application is recommended and requires providing disclosure about such application.

3. IFRIC 12: Licensing Arrangement for Providing Services

The Interpretation relates to annual financial reporting periods commencing on or after January 1, 2008.

Early application is recommended and requires providing disclosure about such application.

4. Amendment to IAS 23: Capitalization of credit costs

The standard is effective with regard to annual financial reporting periods commencing January 1, 2009 or thereafter. Early application is recommended and subject to the provision of disclosure in this regard.

The Company examines the effects of the new standards, but is unable at this stage to estimate their expected effects on its financial results.

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

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

D. Details on the exchange rates are provided below:

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

	<u>March 31,</u>		<u>December 31,</u>
	<u>2007</u>	<u>2006</u>	<u>2006</u>
CPI (in points)	184.43	186.12	184.87
<u>In NIS:</u>			
US Dollar	4.155	4.665	4.225
Pound Sterling	8.125	8.127	8.288
Canadian Dollar	3.601	4.020	3.641
Euro	5.534	5.662	5.564
Swiss Franc	3.407	3.587	3.466
Indian Rupee	0.095	(*)	0.095

(*) The Group had no activity in these currencies in the relevant period.

	<u>Three months ended March 31,</u>		<u>Year ended</u>
	<u>2007</u>	<u>2006</u>	<u>December 31,</u>
			<u>2006</u>
Change in exchange rate during the period then ended (in %):			
CPI	(0.24)	0.58	(0.1)
US Dollar	(1.66)	1.35	(8.21)
Pound Sterling	(1.97)	2.35	4.38
Canadian dollar	(1.1)	1.41	(8.16)
Euro	(0.54)	3.95	2.16
Swiss Franc	(1.69)	2.52	(0.94)
Indian Rupee	0.1	(*)	(*)

(*) The Group had no activity in these currencies in the relevant period.

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

Note 2 - Significant event in the period and thereafter

- A. 1.** In November 2006, a wholly-owned foreign subsidiary of the Company entered into an agreement with a company from the Property and Building Group (hereinafter, "Property and Building") and another foreign company (hereinafter "the foreign company") for the establishment of a company in Mauritius (hereinafter, "the company in Mauritius"), which will be held by the foreign subsidiary and Property and Building in equal shares (45% each), with the remaining 10% held by the foreign company.

The agreement arranges the system of relationships between the subsidiary, Property and Building and the foreign company as shareholders in the company in Mauritius.

The company in Mauritius will operate in the initiation of activity and investments in the real estate area in India.

- 2.** In January 2007, the company in Mauritius, through an Indian subsidiary, entered into a memorandum of understanding for the acquisition of land on an area of 140 dunams in the city of Hyderabad, India. The company in Mauritius will hold around 95% of the rights in the aforesaid venture (hereinafter, "the joint venture"), with the remainder held by the local partner. The aggregate cost of acquisition of the land amounted to approximately US\$ 23 million, with the Company's share in the acquisition amounting to US\$ 10 million, which will be financed from own resources. The joint venture intends to plan and erect buildings on the land, to be used for mixed purposes, mainly for offices and logistics, on a total area of 280,000 square meters. The joint company estimates that the aggregate cost of the project will amount to approximately US\$ 140 million. The joint venture will examine the possibility of bank financing for the construction of the project.
- 3.** In February 2007, the company in Mauritius, through an Indian subsidiary, acquired a plot of land of approximately 100 dunams in the city of Hyderabad, India. The company in Mauritius holds 90% of the rights in the Indian company, with the remainder held by a local partner, which will be entitled to increase its holding in the Indian company by a further 10%. The aggregate cost of acquiring the land amounted to US\$ 30.6 million, with the subsidiary's share amounting to US\$ 13.8 million, which will be financed by own resources.

The designation of the land is for housing and around 2,300 housing units can be built on it, with a total scope of 300,000 square meters. The project will be constructed in stages depending on demand and the actual marketing of the housing units. According to the assessment of the company in Mauritius, the total cost of the investment in the project will amount to US\$ 150 million. The company in Mauritius intends to finance the remainder of its investments in the project by foreign finance.

- B.** In January 2007, a wholly-owned foreign subsidiary of the Company acquired 55% of the rights to a rental property and adjacent land in the city of Toronto, Canada. The acquisition price of the rental property (100%) before expenses is Can\$ 51 million, plus Can\$ 1.6 million of related expenses. In addition, land adjacent to the property, representing part of the site of the property was acquired. The price of the adjacent land (100%) is Can\$ 2 million. According to the existing approvals, it is currently permitted to construct on the land approximately 10,500 square meters for offices or housing.

The property is a seven-storey office block located in the city of Toronto, Canada. The aggregate net area for rental is approximately 24,600 square meters, with the addition of 500 parking places. The building is leased to various tenants for various periods., with the main tenants being the Canadian government, Heinz Foods, EDS Technologies and Shell Energy Company. The present rate of occupancy is around 99%. Average annual gross

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

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

B. (Cont.)

rent (100%) is an aggregate of Can\$ 8.5 million. After deducting management and maintenance expenses, The net average annual rent is Can\$ 3.5 million.

A foreign financial institution has extended a loan to finance the transaction totalling Can\$ 37 million at a fixed interest rate of 5.10% for a period of five years. The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

A foreign financial institution has extended a loan to finance the transaction (100%) totalling Can\$ 37 million at a fixed interest rate of 5.10% for a period of five years.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- C.** In February 2007, a wholly-owned foreign subsidiary of the Company acquired 60% of the rights to a rental property in the city of Chicago, U.S.A. The acquisition price of the property (100%), before expenses, is US\$ 152.7 million, plus related expenses of US\$ 3.6 million. The building is a prestigious (Class A) 26-storey office tower situated in the business centre in the city of Chicago, in the state of Illinois, U.S.A. The net aggregate area for rent is 66,300 square meters. The building is leased to various tenants for various periods. The present rate of occupancy is around 99%. Approximately 62% of the area of the property is leased to 5 main tenants for periods ending between December 2012 and March 2018. Average annual gross rent (100%) is an aggregate of US\$ 20.4 million. After deducting management and maintenance expenses, The net average annual rent is US\$ 10.4 million.

A financial institution in the United States has extended a loan to finance the transaction totalling US\$ 127.44 million, representing around 83% of the price of acquiring the property, at a fixed interest rate of 5.56% for a period of 10 years.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- D.** In February 2007, a wholly-owned foreign subsidiary of the Company acquired 70% of the rights in a portfolio including two rental properties in the city of Saarbrücken and a further rental property, an hotel in the city of Nuremberg, Germany.

The acquisition price of the properties in Saarbrücken (100%) before expenses was € 72.5 million, and the acquisition price of the hotel (100%) before expenses was € 4.6 million. The total cost of the portfolio (100%) before expenses was € 77.1 million, and in addition, related expenses of € 4 million.

The properties in the city of Saarbrücken are two office blocks located in the business centre of the city. Their net aggregate area for rent is 62,700 square meters, as well as around 1,000 covered parking spaces. The present rate of occupancy of these two properties is around 95%. Approximately 90% of the area of these two properties is leased to Deutsche Telekom and Deutsche Post for various periods ending in 2011 – 2017. The property in the city of Nuremberg is a 150-room hotel. The hotel is leased in full to a local hotel management company under a 10-year contract (through 2017) with no exit option.

Net annual rental of the properties in Saarbrücken (100%) is an aggregate of € 6.1 million, and the net annual rental of the hotel in Nuremberg (100%) is an aggregate of € 0.4 million.

The total net annual rental of the three properties (100%) is an aggregate of € 6.5 million. There is an incremental mechanism for the rent in accordance with the consumer price

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

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

D. (Cont.)

index in Germany. All of the current management and maintenance expenses in respect of these properties are paid by the tenants.

A financial institution in Germany has extended a loan to finance the transaction in the amount of € 69.2 million, representing 90% of the acquisition price of the properties, with fixed interest at a rate of 5.34% for a five-year period. In addition, the bank has undertaken to extend a further loan of €5 million on fulfilling certain conditions.

The loan is secured by a first-priority fixed lien on the properties and receipts from the properties, with no right of recourse for the Company.

As a result of the presentation of these two properties at their fair value at the balance sheet date, the Company included in the financial statements as of March 31, 2007 net income of US \$ 15.2 million.

- E.** In February 2007, a foreign subsidiary of the Company, holding in final combination approximately 44.5% in a property in the city of Connecticut, U.S.A., sold its holdings in the property. The property sold was an office block with an area of 78,500 square meters, the rights in which were acquired by the subsidiary in November 2005. The aggregate proceeds from the sale of the property (100%) after selling and related expenses were US\$ 92.8 million and the subsidiary's share was US\$ 41.7 million.

The subsidiary's total share in the aggregate pre-tax profit in respect of the sale of the property, was US\$ 5.2 million, which was recorded in the affiliated company's statements for the year ended December 31, 2006 mainly as revenues from revaluation.

The total net cash flows attributable to the subsidiary in respect of the sale of the property, after repayment of the loan and the rest of the related expenses, are US\$ 17.8 million.

- F.** In February 2007, a wholly-owned foreign subsidiary of the Company acquired 70% of the rights in a rental property in the city of Frankfurt, Germany. The acquisition price of the property (100%) before expenses was €62 million, plus related expenses of €4.5 million. The building is a 22-storey office block situated in one of the business centres in the city of Frankfurt, Germany. The total net area for rental is 18,400 square meters, as well as around 400 covered parking spaces.

The building is fully rented out to Ernst & Young, Accountants, under a rental contract through the end of 2015, with no exit option.

The net annual rental (100%) is €4.1 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of these properties are paid by the tenant.

A financial institution in Germany has extended a loan to finance the transaction (100%) in the amount of €59 million, with fixed interest at a rate of 5.14% for a five-year period. The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

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

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

- G.** In March 2007, a wholly-owned foreign subsidiary of the Company acquired 60% of the rights in a rental property in the city of Chicago, U.S.A. The acquisition price of the property (100%) before expenses was US\$ 79.5 million, plus related expenses of US\$ 2.7 million. The building is a 22-storey office block listed for historic preservation situated in the business centre in the city of Chicago, Illinois, U.S.A. The net aggregate area for rental is 53,900 square meters. The building is leased to various tenants for various periods. The present rate occupancy of the property is 87%. Average annual gross rent (100%) is an aggregate of US\$ 13.3 million, after deducting management and maintenance expenses. The net average annual rent (100%) is US\$ 6.1 million.

A financial institution in the United States has extended a loan to finance the transaction (100%) in the amount of US\$ 61.1 million, with fixed interest at a rate of 5.71% for a three-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- H.** In March 2007, a wholly-owned foreign subsidiary of the Company acquired 90% of the rights to a rental property in the city of Montreal, Canada. The acquisition price of the rental property (100%) before expenses was Can\$ 37.8 million, plus Can\$ 1.3 million of related expenses. The property is a complex comprised of three adjacent office blocks located in the city of Montreal, Canada. The total net area for rent is 28,800 square meters, as well as 435 covered parking places. The property is leased to various tenants for various periods. The present occupancy rate is around 87%. Annual gross rent (100%) is an aggregate of Can\$ 6.7 million, after deducting management and maintenance expenses. The net average annual rent is Can\$ 3.1 million.

A foreign financial institution has extended a loan to finance the transaction (100%) totalling Can\$ 30 million at a fixed interest rate of 5.41% for a period of three years. In addition, the financial institution undertook to extend a further Can\$ 4 million on fulfilling certain conditions.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- I.** In March 2007, a wholly-owned foreign subsidiary of the Company acquired 50% of the rights to a rental property in the city of Geneva, Switzerland. The acquisition price of the rental property (100%) before expenses was Swiss Francs 17.7 million, plus related expenses of Swiss Francs 1.1 million. The property is a 7-storey office block located in the business centre in the city of Geneva, Switzerland. The net aggregate area for rental is 2,500 square meters. The building is currently mostly empty, and the partners intend to renovate and extend the building, at an estimated cost of Swiss Francs 4 million, and lease it in a process that is expected to continue for 6-12 months.

A financial institution in Switzerland has extended a loan to finance the transaction (100%) totalling Swiss Francs 10.7 million at a variable interest rate, currently 2.90%, for an unspecified period available for repayment at any given time at no cost.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

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

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

- J.** In March 2007, a foreign company, held at a rate of 42.5 % by a wholly-owned subsidiary of the Company and 42.5% by a foreign company from the Property and Building Ltd. Group, acquired the rights to a rental property in the city of Cologne, Germany. The acquisition price of the rental property (100%) including expenses was € 106.7 million. The property is a technological park, containing 15 buildings close to the city of Cologne, Germany. The aggregate area of the park is 127 dunams, and the net area for rental is 72,000 square meters, as well as 1,600 parking spaces. In addition, there are additional building rights in the park for 50,000 square meters. The park is fully leased to various tenants for various periods, and is managed by a management company specialized in the area of technological park management. Annual gross rent (100%) is an aggregate of € 7.6 million, after deducting management and maintenance expenses. The net annual rent (100%) is € 7.3 million.

The rental contracts include an incremental mechanism for the rent in accordance with the consumer price index in Germany. A financial institution in Germany has extended a loan to finance the transaction (100%) totalling € 93.7 million at a fixed interest rate of 5.25% for a five-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- K.** In March 2007, a wholly owned foreign subsidiary of the Company acquired 100% of a rental property in the city of Schwerin, Germany. The acquisition price of the property before expenses was € 30.9 million, plus related expenses of € 2.4 million. The property is 4-storey office block situated in the city of Schwerin, Germany. The net aggregate area for rental is 14,560 square meters, as well as 200 covered parking spaces. The building is fully rented to a government medical insurance company (AOK Insurance) in a rental contract through June 2022 (about 15.3 years) with no exit option. The net annual rent is an aggregate of € 2. million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of the property are paid by the tenants.

A financial institution in Germany has extended a loan to finance the transaction totalling € 27.8 million, representing approximately 90% of the acquisition price of the asset, at fixed interest at a rate of 5.25% for a seven-year period.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- L.** In March 2007, the Company, through foreign companies (hereinafter, "the foreign companies") in which the Company holds, through foreign companies, 9.9% (hereinafter, "the acquiring companies") concluded an agreement to purchase the entire share capital of the foreign companies holding 47 hotels managed by the Marriott chain throughout the United Kingdom (hereinafter "the hotels"), 39 of the hotels in England (of which 5 are in London), 5 in Scotland, and 3 in Wales. The hotels are divided into business tourist hotels, golf hotels and tourist hotels, and they include, in total, 8,456 rooms. The acquisition is of the hotels with their entire contents, including all of the furniture and equipment contained therein. A management agreement has been signed by the acquiring companies and the Marriott chain (hereinafter, "the management agreement") whereby the hotels will be managed by the Marriott chain for 30 years with Marriott having an option to extend the agreement for a further 10 years under the conditions that have been agreed. The management agreement relates to the amount of the management fees and the amounts of investment and maintenance. Pursuant to the management agreement, the employees will continue to be employed by the Marriott chain. The management agreement further provides that if Marriott chain does not fulfil the tests of results relating mainly to profitability and occupancy of the hotels, the acquiring companies will be entitled to discontinue the management of the hotels by Marriott. It

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

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

L. (Cont.)

should be noted that Marriott was not granted an exit right from the management. In order to finance the acquisition, a non-recourse long-term fixed-interest loan of £ 856.1 million was approved for the acquiring companies. In addition, the bank undertook to finance additional investments for the acquiring companies that will be required in the coming years in the amount of up to £ 62.2. The bank financing the acquisition will be entitled to 20% of the gains on the sale of the properties in the future. In computing the aforementioned gains, current receipts will not be taken into account. Also, not taken into account is an amount reflecting the increase in the value of 2.5% per annum in respect of each year until the sale. The total shareholders' equity required from the foreign companies (100%) for the acquisition includes all of the related costs, i.e., £ 207.2 million. The share of the foreign companies of the Company in the shareholders' equity is £ 20.5 million.

M. In April 2007, a wholly-owned foreign subsidiary of the Company acquired 60% of the rights in a rental property in the city of Frankfurt, Germany.

The acquisition price of the property (100%) before expenses was € 200 million, plus related expenses of approximately € 17 million. The property is brand new, luxury office block, whose construction was completed in 2003, situated in the business centre of the city of Frankfurt, Germany. Its net aggregate area for rental is 35,500 square meters, as well as 350 covered parking spaces.

The building is fully leased to Dresdner Bank, which is one of largest banks in Germany and belongs to the European financial group, Allianz, in a rental contract through June 2013 with no exit option. The tenant has an option to extend the rental period for a further 5 years.

The net annual rent (100%) is an aggregate of € 14 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of the property are paid by the tenant.

An overseas financial institution has extended a loan to finance the transaction (100%) totalling € 193.5 million at fixed interest at a rate of 5.43% for a seven-year period. Of this amount, € 5.0 million was placed as a deposit, which will be released on fulfilling certain conditions. The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

Another financial institution extended a further loan for the transaction (100%) totalling € 11.8 million at a variable interest rate of LIBOR + 2% for a seven-year period, plus an exit commission, the amount of which is dependent on the gain to be generated in the project on its future sale. The loan is secured by a second priority fixed lien on the property and the receipts from the property, with no right of recourse for the Company.

The total shareholders' equity required for the transaction (100%) is € 16.7 million and the share of the foreign subsidiary (60%) is € 10 million.

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

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

- N.** In May 2007, a wholly owned foreign subsidiary of the Company acquired 60% of the rights in a rental property in the city of Frankfurt, Germany.

The acquisition price of the property (100%) including expenses was €40 million.

The property is a building combining commercial areas and 62 housing units, situated in one of the main commercial streets in the city of Frankfurt, Germany. The net aggregate area for rental is 24,600 square meters, as well as 200 covered parking spaces.

The commercial area, constituting approximately 90% of the entire area of the property and of the revenues therefrom, are fully leased to a retail chain of the Metro group, in a rental contract through December 2013 with no exit option. The housing units are fully leased to various tenants.

The net annual rent (100%) is an aggregate of € 2.53 million. There is an incremental mechanism for the rent in accordance with the consumer price index in Germany. All of the current management and maintenance expenses in respect of the property are paid by the tenants.

An overseas financial institution has extended a loan to finance the transaction (100%) totalling € 32.5 million at a variable interest rate, currently 5.18%, for a five-year period, with maximum interest (cap) protection, not to exceed 5.40%.

The loan is secured by a first-priority fixed lien on the property and receipts from the property, with no right of recourse for the Company.

- O.** In May 2007, a foreign subsidiary of the Company, holding 72% of the rights in one property and 63% of the rights in a second property in the city of Baltimore, U.S.A., Sold its holdings in corporations which hold those properties.

The properties that were sold were two office blocks with an aggregate area for rental (100%) of 53,200 square meters, the rights to which were purchased by the foreign subsidiary towards the end of 2004.

The aggregate proceeds from the sale of the properties (100%), net of selling expenses amounted to US\$ 76.6 million, and the foreign subsidiary's share was US\$ 49.8 million.

The foreign subsidiary's share in the pre-tax aggregate pre-tax profit in respect of the sale of the properties was US\$ 4.3 million. This gain was included in the remeasurement of rental properties performed by the Company in its financial statements in previous reporting periods.

The total net cash flows attributable to the foreign subsidiary in respect of the sale of the properties, after repayment of the loan and the rest of the related expenses, are US\$ 16.5 million.

- P.** On May 9, 2007, the Audit Committee and the Board of Directors of the Company approved a transaction for the acquisition of 25% of the rights in plot of land situated in Yigal Allon Street, Tel Aviv, and for the construction of a project of a 45-storey office block, as a joint transaction with Electra Industries Ltd., a wholly-owned subsidiary of Electra Ltd. (hereinafter, "Electra"), the controlling shareholder in the Company, and Amcor (hereinafter, "the seller"). Pursuant thereto, each will acquire 25% of the right in the plot from the project, as aforesaid, from the seller (hereinafter, "the Project").

The plot is a tract of land leased under a perpetual lease from Israel Lands Administration and from the Tel Aviv Municipality. The Project is a real estate project for the construction of an office block and commercial areas with an area of 54,000 square meters, a car-park with 1,200 parking spaces. The office space that will be built is intended for rental and for sale.

Each party will bear its proportional share in the expenses of the Project. The construction of the Project will be financed through bank funding. Each party to the transaction will make available collateral and shareholders' equity to support the bank funding as necessary, without cross-guarantees and according to its proportional share.

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

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

P. (Cont.)

The proceeds in respect of the rights in the plot were determined as a derivative of the various types of areas of the Project. The Company's share in the proceeds in respect of the rights in the plot amounts to US\$ 10.8 million. A mechanism has been determined between the parties for adjusting proceeds for the actual measurement of the types of the areas.

The project will be constructed by Electra Construction Ltd., a wholly-owned subsidiary of Electra, as a key contractor on the basis of predetermined specification. The total cost of construction is estimated at US\$ 72.2 million. The prices, which do not include value added tax, are linked to the basic index of building inputs. A mechanism has been determined between the parties for reducing the proceeds, in the event of a delay in completing the performance and remuneration in respect of complying with timetables.

Each party will bear the costs of constructing the Project according to its proportional share in the plot (i.e., Electra Industries – 25%, the Company – 25% and the Seller – 50%).

The Company anticipates that the construction of the Project will take around 40 months. The cost of the Project to the Company, before finishing work, is estimated by the Company at US\$ 36.1 million and US\$ 40.9 million including finishing work, including the Company's share in acquiring the plot.

After the building is occupied, it will be managed through a management and maintenance company to be agreed by the parties.

The transaction is subject to the receipt of an exclusion letter from Bank Leumi Ltd., which holds a lien on the rights of the Seller in the plot.

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

Note 3 - Geographical segments

Consolidated data, by operating segments:

Due to the nature of the Company's business activities, the segment's results are net of financing expenses and include revaluation gains and gains from sale of assets.

	<u>Israel</u>	<u>Europe</u>	<u>North America</u>	<u>Total</u>
	US\$ in thousands			
Three months ended March 31, 2007 (unaudited):				
Segment revenues	2,794	28,237	15,263	46,294
Segment results	<u>(3,474)</u>	<u>21,118</u>	<u>(379)</u>	<u>17,265</u>

	<u>Israel</u>	<u>Europe</u>	<u>North America</u>	<u>Total</u>
	US\$ in thousands			
Three months ended March 31, 2006 (unaudited):				
Segment revenues	4,309	13,071	13,131	30,511
Segment results	<u>228</u>	<u>12,270</u>	<u>3,488</u>	<u>15,986</u>

	<u>Israel</u>	<u>Europe</u>	<u>North America</u>	<u>Total</u>
	US\$ in thousands			
Year ended december 31, 2006(*):				
Segment revenues	25,927	69,847	64,495	160,269
Segment results	<u>6,422</u>	<u>57,732</u>	<u>23,487</u>	<u>87,641</u>

(*) Reclassified.

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

Note 4 - Explanation of transition to international financial reporting standards (IFRS)

The significant adjustments between reporting in accordance with generally accepted accounting principles in Israel to reporting in accordance with international financial reporting standards (IFRS), which will be included in the consolidated balance sheets and shareholders' equity as of March 31, 2006 and in the consolidated statement of operations for the period of three months ended March 31, 2007 are summarised as follows:

A. Adjustments to capital

		As of March 31, 2006		
		Israeli standards	Effect of transition to international standards	International standards
		US\$ in thousands	US\$ in thousands	US\$ in thousands
Note				
<u>Current assets</u>				
	Cash and cash equivalents	17,962	-	17,962
	Short-term deposits	3,778	-	3,778
	Marketable securities	25,634	-	25,634
	Trade accounts receivable	2,161	-	2,161
	Current tax assets	⁽²⁾ 250	-	249
	Receivables and other current assets	⁽²⁾ 7,009	(1,021)	5,988
		56,793	(1,021)	55,772
<u>Un-current assets</u>				
	Investments in affiliates	(1) 94,373	2,008	96,381
	Loans and long-term receivables	⁽²⁾ 21,323	(958)	20,365
	Fixed assets	282	-	282
	Inventory of land	⁽²⁾ 9,307	-	9,307
	Other investment	16,750	-	16,750
	Deferred income taxes	(3),(1) 2,805	(2,281)	524
	Deferred expenses	(1) 629	(629)	-
		145,469	(1,860)	143,609
	<u>Yielding assets in -</u>	(1)		
	Israel	110,856	19,522	130,378
		⁽²⁾⁽¹⁾		130,378
	Britain	55,924	11,844	67,768
	North America	187,255	61,719	248,974
	Europe	⁽²⁾ 135,819	12,303	148,122
		489,854	105,388	595,242
		692,116	102,507	794,623

(1) As part of the transition to international accounting standards, an adjustment by way of a restatement as of March 31, 2006, totalling US\$ 6.9 million, is included.

(2) Reclassified.

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

Note 4 - Explanation of transition to international financial reporting standards (IFRS) (Cont.)

A. Adjustments to capital (Cont.)

		As of March 31, 2006		
		Israeli standards	Effect of transition to international standards	International standards
		US\$ in thousands	US\$ in thousands	US\$ in thousands
Note		thousands	thousands	thousands
<u>Current liabilities</u>				
	Loans to finance yielding properties (including current maturities of long-term loans)	(4) 45,381	51,319	96,700
	Current tax liabilities	(2) 875	-	875
	Trade accounts payable	3,455	-	3,455
	Payables and other current liabilities	(2) 14,119	4,161	18,280
		<u>63,830</u>	<u>55,480</u>	<u>119,310</u>
<u>Un-current liabilities</u>				
	Debentures	84,249	-	84,249
	Long-term loans to finance development projects	(3) 10,039	(10,039)	-
	Liabilities in respect of index-linked options	(2) -	6,714	6,714
	Loans from Electra Group companies	27,659	-	27,659
	Loans from minority shareholders in subsidiaries	(2) 3,904	-	3,904
	Deferred income taxes	(1) (2) 5,753	25,672	31,425
		<u>131,604</u>	<u>22,347</u>	<u>153,951</u>
	<u>Loans for financing yielding assets in -</u>	(4)		
	Britain	(2) 45,429	-	45,429
	North America	(2) 187,416	(40,141)	147,275
	Europe	127,293	(11,178)	116,115
		<u>360,138</u>	<u>(51,319)</u>	<u>308,819</u>
<u>Equity</u>				
	Equity attributable to the Company's shareholders	(1) 135,138	68,576	203,714
	Minority interests	(5) 1,405	7,424	8,829
	Total equity	<u>136,543</u>	<u>76,000</u>	<u>212,543</u>
		<u>692,115</u>	<u>102,508</u>	<u>794,623</u>

(1) As part of the transition to international accounting standards, an adjustment by way of a restatement as of March 31, 2006, totalling US\$ 6.9 million, is included.

(2) Reclassified.

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

Note 4 - Explanation of transition to international financial reporting standards (IFRS) (Cont.)

B. Profit and Loss adjustment

		As of March 31, 2006		
		Israeli standards	Effect of transition to international standards	International standards
		US\$ in thousands	US\$ in thousands	US\$ in thousands
Note				
Revenues				
	Rental fees, management fees and others	15,412	-	15,412
(1)	Revaluation of yielding assets	⁽¹⁾ (233)	12,212	11,979
(1)	Gain from realization of investments and yielding assets	-	-	-
(1)	Company's share in earnings of affiliates, net	1,853	1,267	3,120
	Total revenues	<u>17,032</u>	<u>13,479</u>	<u>30,511</u>
Costs and Expenses				
	Operating expenses and maintenance fees	5,654	-	5,654
	General and administrative expenses	807	-	807
(1)	Depreciation and amortization	2,231	(2,082)	149
	Financing expenses	5,062	498	5,560
	Financing income	-	(498)	(498)
(2)	Revaluation of liabilities in respect of index-linked options	-	2,853	2,853
	Total costs and expenses	<u>13,754</u>	<u>771</u>	<u>14,525</u>
	Pre-tax income	3,278	12,708	15,986
(1)	Income taxes	<u>564</u>	<u>3,713</u>	<u>4,277</u>
	Net income for the year	<u><u>2,714</u></u>	<u><u>8,995</u></u>	<u><u>11,709</u></u>
Attributable to:				
	The Company's shareholders	2,674	8,702	11,376
(5)	Minority interests	<u>40</u>	<u>293</u>	<u>333</u>
	Net income for the period	<u><u>2,714</u></u>	<u><u>8,995</u></u>	<u><u>11,709</u></u>

- (1) As part of the transition to International Accounting Standards, an adjustment by way of a restatement in the period of three months ended March 31, 2006, totalling US\$ 240.7 thousand, is included.

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

Note 4 - Explanation of transition to international financial reporting standards (IFRS) (Cont.)

C. Notes to the adjustment to capital and to net income or loss

1. Investment real estate

According to generally accepted accounting principles in Israel, investment real estate were stated on a cost basis, including the capitalization of costs directly attributable to its purchase, capitalized to the date that the buildings are suitable for fulfilling their designated purpose. Cost was presented net of accumulated depreciation and declines in the value of the buildings.

International standards permit the choice between the fair value model and the cost model. The Group has elected to apply the fair value model, according to which investment real estate is measured, after initial recognition, at fair value, with changes in fair value recognized in profit or loss.

2. Receipts on account of options

According to international standards, a derivative that is paid by of exchange of a non-fixed amount is defined as a financial liability. Furthermore, a financial liability that constitutes a derivative is measured at fair value against profit and loss. Accordingly, options whose exercise price per share is linked to the Israel consumer price index is presented as a liability measured at their fair value.

3. Management fees to controlling shareholder

In accordance with a decision of the staff of the Israel Securities Authority of June 2005, and pursuant to a preliminary directive received from the staff of the Israel Securities Authority, the Company previously recorded a liability (net after a charge for tax) in respect of an agreement for management fees.

An estimate of the initial liability was computed according to the payment of management fees based on the average consolidated net income of the Company in the past three years, at a capitalization rate of 8.5%.

The capitalization of the liability was effected in respect of the period from the beginning of the sixth year from the date of signing the agreement and thereafter. Once each reporting period, the liability was updated in accordance with the estimate of a representative profit. The amounts of the update were carried periodically, directly, net of the related tax effect, as a reduction or increase of the shareholders' equity in each reporting period.

According to international reporting standards, the liability and the reduction from shareholders' equity in respect of the commitment to pay management fees should not be recognized.

4. Extension of credit facilities after the balance sheet date

In May 2006, the Company came to an agreement with the banks regarding the extensions of long-term credit facilities totalling US\$ 51.3 million, subject to the Company's meeting its obligations to the banks.

According to Israeli standards, the credit is presented in full at the amount of the aforesaid credit facilities as of March 31, 2006, as a long term credit.

According to international standards, the agreements for the extension of the credit facilities obtained in writing after the balance sheet date do not change the classification as short-term credit.

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

Note 4 - Explanation of transition to international financial reporting standards (IFRS) (Cont.)

C. Notes to the adjustment to capital and to net income or loss (Cont.)

5. Minority rights

According to generally accepted accounting principles in Israel, minority rights are measured according to the share of the minority in the identifiable assets and liabilities of the investee company at book value and are presented as quasi-capital.

According to international standards, minority rights are presented in the consolidated balance sheet as a part of shareholders' equity at the amount of the minority's share in the identifiable assets and liabilities of the investee company on the date of acquisition at their fair value, with the addition of the minority share in the Company's accrued profits from the date of acquisition to the balance sheet date.