

ELECTRA REAL ESTATE LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 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 DECEMBER 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 nine months ended December 31, 2007.

The attached financial statements are presented in conformity with international financial reporting standards (IFRS)

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, 116 assets including 106 yielding assets and 10 assets in various stages of development and construction as well as 9.9% in 58 hotels across Britain, as follows:

<u>Country</u>	<u>Yielding assets</u>	<u>Nature of asset</u>
Israel	18	13 Yielding assets and 5 assets under construction
Britain	5 58	Yielding assets Hotels (Company's share- 9.9%)
Canada	16	Yielding assets
USA	8	7 Yielding assets and 1 asset that is being earmarked for conversion and sale as condo units
Germany	54	54 Yielding assets
Switzerland	3	3 Yielding assets
Holland	6	Yielding assets
Belgium	1	Yielding asset
India	5	Assets under construction

The Company's in the aggregate area of the rental properties (including the Company's share in the assets of affiliates) is 1,135,000 sq. mtrs., with another 437,500 sq. mtrs. of parking space.

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

A map outlining the Company geographic areas of activity is set forth below:

- | |
|----------------|
| 1- Canada |
| 2- USA |
| 3- Britain |
| 4- Holland |
| 5- Germany |
| 6- Switzerland |
| 7- Israel |
| 8- India |
| 9- Belgium |



Significant events and changes in the Company's inventory of properties:

(including properties included in full consolidation, proportional consolidation, affiliated companies and others)

During the report period:

- ✓ Acquisition of 48 yielding properties
- ✓ Acquisition of 9.9% from 47 hotels of Marriot's chain throughout Britain
- ✓ Acquisition of 25% from the Harbor Group International LLC ("HGI") in USA
- ✓ Acquisition of 5 plots of land for construction in India
- ✓ Acquisition of 2 lands for construction in Israel
- ✓ Acquisition of an interest in land in London which, until that date, was under a lease (on the land there is an assets that owned by the Company)
- ✓ Sale of three properties in USA
- ✓ Sale of three properties in Britain
- ✓ Sale of five hotels of Marriott's chain
- ✓ Sale of a property in Israel

The Company's share in all the properties acquired, net of assets sold in the period, amounts to \$ 1768 million.

After the period:

- ✓ An increase in the holding in 1 of the properties in Israel from 25% to 50%.
- ✓ Signed agreements to sell 4 floors of officers in Israel (subject to the receipt of approvals and the fulfilment of certain fundamental conditions).

Credit rating

The Company's debentures are rated by Maalot - The Israel Securities Rating Company Ltd. At the rate (A+). The rating relates to the Series A and B. Details on the Company's debentures are as follows:

Series issued	Date of issue	Nominal financial value (In thousands)
Series A debentures – traded on the stock exchange	Aug 2005	NIS 340,000 (\$88,403.5)
Series B debentures – Issued to institutions	Sept 2006	NIS 167,714 (\$43,607.4)

Activity in Israel

The Company holds seven offices buildings held at various rates ranging from 33% to 100% and six office floors in different locations in Israel. The assets are leased to various tenants for different periods expiring till 2020. In addition, the Company holds five assets under construction.

Transactions during the period:

- Purchase of rights to land for the construction of an office building, the Elco Building, Tel Aviv.
- Purchase of building and building rights in Brenner Street, Tel Aviv
- Sale of office block (Ayalon Business Centre)
- End of construction of rental property in Petach Tikva and commencement of rental to Kodak Corporation.

Transactions after the report period

- Increase the holding rate (from 25% to 50%) in office building in Herzlia
- Signed agreements to sell 4 floors of office space (subject to the receipt of approvals and the fulfilment of certain fundamental conditions).

Foreign activity

Electech Real Estate B.V (Electech)

Electech, a Dutch foreign company, wholly owned by the Company, consolidates, supervises and manages most the Company's act outside Israel. Electech's activity is conducted through foreign companies and partnerships.

As of December 31, 2007, Electech operates in the Britain, the United States, Germany, the Netherlands, Switzerland and India.

Britain

On the balance-sheet date the Company held, through investees abroad, five commercial buildings in Britain, leased for periods expiring between 2010 and 2020, held at percentages of 60% and 100%. The company also holds through foreign investees in 9.9% from 16 hotels throughout Britain, managed by Hilton and in 9.9% from 42 hotels throughout Britain managed by Marriott.

Transactions during the period:

- Acquisition of Marriott hotels, Britain
- Acquisition of office building RBC, London
- Acquisition of rights to land (Through that date, the land was under a lease) in Buckingham Gate, London
- Sale of a property in Jermyn St., London
- Sale of an office building in Lime St., London
- Sale of a building Amex, Brighton
- Sale of five hotels of Marriott's chain

Canada

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in 16 commercial buildings in Canada that are held at various rates ranging from 55% to 100% in lease contracts for periods which ends between 2008 and 2022.

Transactions during the period:

- Acquisition of office Building in 90 Sheppard St., Toronto
- Acquisition of three office buildings, Metro complex, Montreal
- Acquisition of office Building in Winnipeg
- Refinancing of three assets in Montreal

USA

At the balance-sheet date, through its foreign subsidiary, Electech Real Estate INC. ("Electech INC"), Electech holds rights in two buildings in USA that are held at rates of 60%.

The company holds six assets at rates ranging between 44.4% - 49% through companies that accounted by the equity method. Including one asset that is being earmarked for conversion and sale as condo units.

In addition, the company holds 25% of the Harbor Group International LLC ("HGI") in USA.

Transactions during the period:

- Acquisition of property in 2 North LaSalle Street, Chicago
- Acquisition of property in 111 Washington Street, Chicago
- Acquisition 25% of Harbor Group International LLC
- Sale of State House Building, Connecticut
- Sale of 2 properties in the city of Baltimore

Europe (Germany, Holland, Switzerland and Belgium)

At the balance-sheet date, through its foreign subsidiaries Electech holds rights in fifty nine buildings in Germany, Holland, Switzerland and Belgium that are held at rates of 50% - 100%. An additional 5 properties held through affiliates at rate of 42.5%- 45%.

Transactions during the period:

- Acquisition of 3 properties in Saarbrücken and in Nurnberg
- Acquisition of office building Ernst & Young, Frankfurt
- Acquisition and expansion of office building Rue Ferdinand, Geneva, Switzerland
- Acquisition of Technology Park, Cologne
- Acquisition of office building AOK, Schwerin
- Acquisition of office building Dresdner Bank, Frankfurt
- Acquisition of a property Saturn, Frankfurt
- Acquisition of Goleon Portfolio including 10 properties, Netherlands and Germany
- Acquisition of 2 properties BMW, Regensburg and Leipzig
- Acquisition of 17 properties, Cologne
- Acquisition of Hilton hotel, Antwerp

India

Transactions during the period:

- Acquisition of 5 plots of land for construction

B. Financial Position

Total assets as of the balance sheet date amounted to \$3,000.1 million, compared to \$1,361.4 million at the end of 2006. The net increase (after deduction of assets sold during the reporting period) is primarily attributable the significant increase in the Company's activity and its business expansion in the markets of activity, with an investment in yielding properties in Europe, United States, Canada and India.

Current assets

Total current assets as of the balance sheet date amounted to \$167.2 million, compared to \$96.6 million as of the end of 2006. Most of the increase is attributable to an increase in cash and short-term deposits.

Non current assets

Non current assets as of the balance sheet date amounted to \$309.3 million as compared with \$245.4 million on December 31, 2006.

Yielding assets

Total yielding assets as of the balance sheet date amounted to \$2,523.6 million as compared with \$1,019.4 million on December 31, 2006. The increase stems mainly from an investment in a yielding asset in Europe, USA, Canada and India.

The Company's share in the yielding assets of its affiliates as of the balance sheet date totals \$331.5 million.

Current liabilities

Total current liabilities as of the balance sheet date amounted to \$224.8 million as compared with \$145.1 million on December 31, 2006. The increase is primarily attributable to the creditors in respect of the company's activity expansion, acquisition of yielding properties and an increase in credit received by the Company for their acquisition.

Non current liabilities

Non current liabilities (including long-term loans obtained to finance the acquisition of yielding assets) on the balance-sheet date amounted to \$2,358.1 million as compared with \$900.2 million on December 31, 2006. The increase resulted mostly from loans obtained for investment in yielding assets in the Company's markets of operation. As of the balance sheet date the bank loans, which amounted to \$1,886.1 million, constituted non-recourse loans secured by a first-tier lien on the asset and the receipts in respect thereof (Electra Real Estate LTD). The Company's share in the bank loans of its affiliates as of the balance sheet date totals \$247.0 million. These are non-recourse loans.

Shareholders' equity

The Company's shareholders' equity at the balance sheet date was \$417.2 million compared to \$316.1 million at the end of 2006.

C. Results of operations

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

	<u>Year 2007</u>	<u>Quarter 1-3/07</u>	<u>Quarter 4-6/07</u>	<u>Quarter 7-9/07</u>	<u>Quarter 10-12/07</u>
Revenues from rental fees, management fees, and other	185,531	30,705	40,811	52,013	62,002
Adjustment of fair value and results of disposal of yielding properties, net	69,316	19,547	26,516	8,514	14,739
Company's share in earnings (losses) of affiliates, net	5,370	(239)	2,587	4,476	(1,454)
Total revenues	260,217	50,013	69,914	65,003	75,287
Operating expenses and maintenance fees	57,797	10,711	12,595	13,627	20,864
general and administrative expenses	11,831	3,384	4,690	3,507	(*) 250
Financing expenses, net	97,382	13,137	19,685	33,690	30,870
Financing expenses (income) in respect of revaluation of index-linked options	832	4,129	(661)	(2,330)	(306)
Total costs and expenses	167,842	31,361	36,309	48,494	51,678
Pre-tax income	92,375	18,652	33,605	16,509	23,609
Income taxes	20,578	5,371	8,635	2,406	4,166
Net income	71,797	13,281	24,970	14,103	19,443
Attributed to:					
The Company's shareholders	71,302	13,263	24,361	14,198	19,480
Minority interests	495	18	609	(95)	(37)
Net income	71,797	13,281	24,970	14,103	19,443

(*) see section E. as follows, events after the balance period

Revenues

Total revenues of the Company in the year ended in 2007 (hereinafter, "the reporting period") amounted to \$260.2 million, compared to \$173.1 million in the corresponding period last year, increase of 50.3%. The company's revenues in the reporting period includes, \$74.7 million from Adjustment of fair value and results of disposal of yielding properties and from Company's share in earnings (losses) of affiliates (net, after tax), compared to \$94.4 million in the corresponding period last year.

Revenues from rent, management fees and other income

The Company's revenues from rent, management fees and other in the reporting period amounted to \$ 185.5 million, compared to \$ 78.7 million in the corresponding period last year, increase of 135%. Most of the increase in rental fees is attributable to the purchase of new properties in the Company's markets of operation and in new markets, as well as an increase in the shareholding percentage in 2 affiliated companies, which in 2007 are presented as companies using the proportional consolidation method.

Income from the adjustment of fair value and sale of yielding properties, net

The Company's income from the adjustment of fair value and the sale of yielding properties, net in the report period amounted to \$ 69.3 million, compared to \$ 58.6 million in the corresponding period last year. The increase in the adjustments is primarily attributable to the adjustment in fair value executed by the Company in its properties.

Financing expenses, net

In the reporting period, financing expenses totaled \$97.4 million, compared with \$30.0 million in the corresponding period last year. The financing expenses in the report period include \$73.6 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, 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, totaling \$0.8 million, compared to \$9.6 million in the corresponding period last year. Total cumulative financial expenses charged (from 2005) to the Company's statement of operations as of December 31, 2007 in respect of this item amounted to \$12.7 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 \$71.8 million, compared to \$75.0 million in the corresponding period last year.

Cash flows

Cash flows used in operating activities

During the reporting period operating activities provided the Company with cash flows totaling \$27.4 million, as compared with \$16.3 million in the corresponding period last year, increase of 68%. The increase was primarily attributable to an expansion of the Company's activities, the contribution of new properties to operating activities and to the receipt of dividends from financial investments.

Cash flows used in investment activities

Cash flows used for investing activities in the reporting period amounted to \$1,236.4 million, compared to \$308.5 million in the corresponding period last year. The increase is primarily attributable to investments in yielding assets and property in the countries where the company operates.

Cash flows provided by financing activities

Cash flows from financing activities during the reported period, which amounted to \$1,266.3 million, compared with \$339.4 million in the corresponding period last year, have been primarily affected receiving long-term loans to finance new investments in the countries where the company operates.

D. Events during the balance period

1. 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.
2. In 2007, 1,190,443 options (Series A) were exercised to 1,190,443 shares of the Company, Accordingly, the Company's shareholders' equity will increase by \$ 24.2 million, of which \$ 9.4 million arising from the conversion of the liability to capital as required by the international standards (IFRS).
3. On July 26, 2007, the Board of Directors of the Company approved a resolution to raise up to \$ 104.0 million by way of an issue of ordinary non-marketable Series C debentures to institutional entities. The debentures were not issued.
4. On August 13, 2007, Maalot - The Israel Securities Rating Company Ltd. ("Maalot") announced a preliminary rating for the Series C debentures of (A+), for a series of up to \$ 91.0 million. On November 7, 2007, as a result of the deferral of the issue date of the Series C debentures, Maalot announced that the rating that had been intended for this series was no longer valid.
5. On August 22, 2007, the general meeting of the shareholders approved a framework agreement for extending a credit facility totalling up to \$ 26.0 million by Elco Holdings Ltd. The rate of interest determined in relation to the loans to be taken by the Company from time to time out of the facility reflects the market conditions.

E. Events after the balance period

On March 17, 2008, the Audit Committee and the Board of Directors of the Company approved a resolution that the management fees and grants paid by the Company to the controlling shareholder therein (Elco Holdings Ltd. (hereinafter "Elco") and three managers would be restricted to the annual maximum amount of \$ 6.6 million linked to the Israeli consumer price index for the month of November 2007 (hereinafter, "the top bar"), for a three-year period commencing 2007 to 2009. Accordingly, each one of the managers and Elco will be entitled to the relevant proportion of the Company's pre-tax profit, and, in any case, not more than the proportional share of the top bar to be calculated as the total proportional share of the annual management fees and grants paid by the Company (10.2%). The impact of the resolution is reflected in the fourth quarter of the year. The arrangement with Elco was approved as an eligible transaction pursuant to the provisions of Companies Law and the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (hereinafter, "the Relief Regulations"). According to the Relief Regulations, one or more shareholders holding at least 1% of the issued capital or voting rights in a company has the right to announce within 14 days of the issue date of the decision by the Company that he objects to the giving of the relief in the approval process. If this is done, the arrangement is subject to the approval of the general meeting, pursuant to Section 275 of the Companies Law.

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

Company's policy and method for managing business risk

The Company uses the following means for reducing its business 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,

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

See the appendix A, attached hereto.

H. Linkage Basis Report

See the appendix B, attached hereto.

I. Directors possessing accounting and financial skills

The number of directors possessing accounting and financial expertise has been determined as one. The following directors are considered to possess accounting and financial expertise:

- Prof. Israel Zeng

Vice-President for Academic Affairs and Head of School of Management – Economics, Academic College of Tel-Aviv – Jaffa. Professor (retired) of School of Management, Tel-Aviv University, member of the faculty since 1975. He has published articles in the areas of economics and operations research for the past 30 years and is currently serving as the academic director of the Kellogg Recanati's Executive MBA program. In addition, Prof. Zeng has held various other senior positions in the University while serving as a director in public companies.

- Prof. Ben Ami Zukerman:

Professor (retired) of School of Business. Previously served as lecturer at Tel Aviv University's MBA school and the Hebrew University's law school in the areas of finance and the capital market and has written many publications on related matters.

Served as: chairman of the board of Mivtachim Pension Plan, CEO of the company ha'ovdim, in charge of the capital market, insurance and savings at the Ministry of Finance, member of the Security Authority, director of the Tel Aviv Stock Exchange as well as chairman and board member in several public companies.

J. Accounting estimates

General

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

Changes in fair value of yield assets

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

K. Disclosure concerning the Company's Internal Auditor

1. Details of the Internal Auditor

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

2. Method of appointment

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

3. Identity of the supervisor of the Internal Auditor

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

4. Business plan

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

5. Overseas audit and/or of investee companies

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

6. The extent of the position

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

Estimate of the extent of the work in hours			
	In the entity	In entities held by the entity	Total
Activities in Israel	374	-	374
Overseas activities	-	100	100
Total	374	100	474

Since the audit work plan is for a period of two years, the extent of the actual annual audit hours varies from year to year.

7. Conducting the audit

7.1 The Internal Auditor conducts his audit in conformity with generally accepted professional standards as stated in Section 4(b) of the Internal Audit Law, 1992 and professional directives approved and published by the Institute of Internal Auditors in Israel, and as stated in the Companies Law.

7.2 In the opinion of the Company's Board of Directors, the Internal Auditor complies with the requirements prescribed in the professional standards.

8. Access to data

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

9. Internal Auditors report

9.1 The Internal auditor submits reports on his findings in writing on a regular basis from time to time and in accordance with the audit issues dealt with during the year. Accordingly, discussions are held regarding his findings in the respective companies. During 2007, two meetings were held, on May 28, 2007 and on November 29, 2007.

9.2 The audit reports are submitted, inter alia, to the Chairman of the Board of Directors, Chairman of the Audit Committee, members of the Audit Committee and the Company's Chief Executive Officer.

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

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

11. Remuneration

11.1 The Internal Auditor is a salaried employee of the parent company, Elco Holdings Ltd.

11.2 In the opinion of the Board of Directors, the remuneration of the Internal auditor does not constitute a factor influencing his professional discretion.

L. Disclosure concerning the independent auditors' fee

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

Company	Firm	2007			2006		
		Fee in thousands \$		Work hours	Fee in thousands \$		Work hours
		Audit, tax and related services	Other services	Audit, tax and related services	Audit, tax and related services	Other services	Audit, tax and related services
Electra real Estate Ltd. & Electech Real Estate INC	Brightman Almagor & Co.	191	-	6,185	186	-	2,850
Companies hold the German Partnerships	Autocan Audit	198	-	2,463	72	-	882
Entities in Canada	KPMG	224	83	2,100	180	35	1,500

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

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

N. Contributions

In 2007, the Company in Israel donated a total of \$45 thousand. The donations are intended for non-profit organizations.

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

Shlomo Sherf
CEO

Michael Salkind
Director (*)

March 17, 2008

(*) Because of the absence of the Chairman of the Board of Directors from Israel, on March 17, 2008, the Board authorized Mr. Michael Salkind, a director in the Company, to sign the Report of the Board of Directors on the Affairs of the Company for the Year Ended December 31, 2007 in place of the Chairman.

Appendix A

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

	Sensitivity to changes in the US Dollar rate of exchange				
	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	(23,146)	(11,573)	231,464	11,573	23,146
Investment portfolio	40	21	410	(21)	(40)

	Sensitivity to changes in the Canadian Dollar rate of exchange				
	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	31,508	15,754	315,080	(15,754)	(31,508)

	Sensitivity to changes in the Euro rate of exchange				
	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	(122,953)	(61,477)	1,229,534	61,477	122,953

	Sensitivity to changes in the Pound Sterling rate of exchange				
	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	(16,539)	(8,270)	165,390	8,270	16,539
Investment portfolio	22	11	224	(11)	(22)

	Sensitivity to changes in the Swiss Franc rate of exchange				
	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	(1,150)	(575)	11,500	575	1,150

	Sensitivity to changes in the Israeli 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	804	413	26,971	(397)	(815)
Investment portfolio	(77)	(38)	1,807	37	73
Debentures	2,527	1,269	138,885	(1,304)	(2,620)

	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	6,154	3,104	231,464	(3,160)	(6,377)
Investment portfolio	(11)	(5)	408	5	10

	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	30,090	15,160	1,229,534	(15,394)	(31,027)

	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	8,372	4,228	315,080	(4,313)	(8,712)

	Sensitivity to changes in the Swiss Franc 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	151	76	11,500	(76)	(153)

	Sensitivity to changes in the Pound Sterling 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	5,661	2,828	165,390	(3,022)	(6,043)
Investment portfolio	(7)	(3)	224	3	6

	Sensitivity to changes in shares prices:				
	Increase of:		Fair value (\$'000)	Decrease of:	
	10%	5%		5%	10%
	Profit (loss) (\$'000)		Profit (loss) (\$'000)		
Financial Instruments					
Cash and Investments	(244)	(122)	2,441	122	244

	Sensitivity to changes in cash flow due to changes in variant 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	(4,351)	(2,190)	300,635	2,220	4,471

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.
3. The loans data includes loans from affiliates companies.

Appendix B

Balance sheet linkage basis - December 31, 2007

(Table 1)

	Linked to Foreign currency	CPI- linked	Unlinked	Balance	Balance- sheet total
	(in thousand US dollars)				
Cash and cash equivalents	54,905	-	67,649	-	122,554
Short term deposits	15,162	-	242	-	15,404
Marketable securities	634	1,374	1,045	-	3,053
Trade accounts receivable	7,264	-	842	-	8,106
Current tax assets	933	7	-	-	940
Receivables and other current assets	2,244	-	3,218	5,140	10,602
Yielding property intended for disposal	-	-	-	6,572	6,572
Inventory of land	-	-	-	15,365	15,365
Investments in affiliates	84,720	-	681	95,838	181,239
Other investment	-	-	-	84,115	84,115
Loans and long term receivables	27,738	-	-	-	27,738
Deferred income taxes	-	-	-	397	397
Fixed assets	-	-	-	436	436
Yielding assets	-	-	-	2,523,560	2,523,560
Total assets	193,600	1,381	73,677	2,731,423	3,000,081
Loans for financing yielding assets	111,522	18,426	7,878	-	137,826
Trade accounts payable	2,659	-	474	-	3,133
Payables and other current liabilities	62,962	-	19,268	-	82,230
Current tax liabilities	374	1,268	-	-	1,642
Loans for financing yielding assets:					
Israel	-	25,663	8,991	-	34,654
Britain	217,211	-	-	-	217,211
North America	501,257	-	-	-	501,257
Europe	1,329,134	-	-	-	1,329,134
Other long-term liabilities	14,174	-	-	-	14,174
Debentures	-	121,231	-	-	121,231
Loan from affiliate company	5,249	-	-	-	5,249
Loan from Electra Group companies	28,962	-	-	-	28,962
Loans from shareholders in subsidiaries	3,072	-	-	-	3,072
Liabilities in respect of index-linked options	-	-	-	3,262	3,262
Long-term loan to finance development project	-	-	14,229	-	14,229
Employee benefit liability, net	-	-	-	560	560
Deferred income taxes	-	-	-	85,069	85,069
Minority interest	-	-	-	6,996	6,996
Total liabilities	2,276,576	166,588	50,840	95,887	2,589,891
Net balance sheet amount	(2,082,976)	(165,207)	22,837	2,635,536	410,190
Classification of balances linked to the functional currencies of autonomous units	2,067,500	-	-	-	2,067,500
Total exposure of assets (liabilities)	(15,476)	(165,207)	22,837	2,635,536	2,477,690

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

	US Dollar	Sterling	Euro (in thousand US dollars)	Canadian dollar	Other	Linked to foreign currency
Cash and cash equivalents	2,040	3,791	37,059	10,229	1,786	54,905
Short-term deposits	3,484	197	5,223	6,258	-	15,162
Marketable securities	419	215	-	-	-	634
Trade accounts receivable	242	2,819	2,142	1,648	413	7,264
Current tax assets	915	-	5	10	3	933
Receivables and other current assets	1,560	-	234	440	10	2,244
Yielding property intended for disposal	-	-	-	-	-	-
Inventory of land	-	-	-	-	-	-
Investments in affiliates	72,075	-	12,645	-	-	84,720
Other investment	-	-	-	-	-	-
Long-term receivables	969	10,145	9,526	7,098	-	27,738
Deferred income taxes	-	-	-	-	-	-
Fixed assets, net	-	-	-	-	-	-
Yielding assets, net	-	-	-	-	-	-
Total assets	81,704	17,167	66,834	25,683	2,212	193,600
Loans for financing yielding assets	31,784	10,679	47,584	19,845	1,630	111,522
Trade accounts payable	-	247	1,161	875	376	2,659
Payables and other current liabilities	18,764	6,091	26,415	10,312	1,380	62,962
Current tax liability	-	-	372	2	-	374
Loans for financing yielding assets:						
Israel	-	-	-	-	-	-
Britain	-	217,211	-	-	-	217,211
North America	185,889	-	-	315,368	-	501,257
Europe	-	-	1,250,178	-	78,956	1,329,134
Other long-term liabilities	4,875	-	-	9,299	-	14,174
Debentures	-	-	-	-	-	-
Loan from affiliate company	-	-	5,249	-	-	5,249
Loan from Electra Group companies	-	-	1,490	27,472	-	28,962
Loans from shareholders in subsidiaries	-	-	-	3,072	-	3,072
Liabilities in respect of index-linked options	-	-	-	-	-	-
Long-term loan to finance development project	-	-	-	-	-	-
Employee benefit liability	-	-	-	-	-	-
Deferred income taxes	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Total liabilities	241,312	234,228	1,332,449	386,245	82,342	2,276,576
Net balance sheet amount	(159,608)	(217,061)	(1,265,615)	(360,562)	(80,130)	(2,082,976)
Classification of balances linked to the functional currencies of autonomous units	144,132	217,061	1,265,615	360,562	80,130	2,067,500
Total exposure of liabilities	(15,476)	-	-	-	-	(15,476)

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

We have audited the consolidated balance sheets of **Electra Real Estate Ltd.** ("the Company") and subsidiaries as of December 31, 2007 and 2006, and the related statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2007, and have issued our unqualified report thereon dated March 17, 2008.

As noted in our above-mentioned independent auditors' report, we have not audited the financial statements of consolidated subsidiaries, whose assets, at December 31, 2007, constitute approximately 82% of total consolidated assets at that date (2006 - 68%), and whose revenues, for the three years ended December 31, 2007 2006 and 2005 constitute approximately 81%, 76% and 94%, respectively, of the total consolidated revenues for the years then ended. Moreover, we did not audit the financial statements of affiliates, in which the Company's investment at December 31, 2007 and 2006 amounted to \$87 million and \$67 million, respectively, and the Company's share in their results for the three years ended December 31, 2007 amounted to \$0.4 million, \$19.5 million, and \$16.4 million, respectively. The financial statements of those companies were audited by other auditors whose reports were furnished to us and our opinion, insofar as it relates to amounts included in respect of those companies, was based on the reports of the other auditors.

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

As described in Note 1c. herein, the accompanying English-language condensed consolidated financial statements in US dollars ("dollars") represent a translation of the above-mentioned NIS financial statements into dollars in condensed form solely for the convenience of the reader ("convenience translation") using the representative dollar exchange rate in effect on December 31, 2007. Comparative amounts for 2006 represent a translation of the NIS values of the respective year, using the representative dollar exchange rate in effect on December 31, 2007.

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

Brightman Almagor & Co.
Certified Public Accountants

Tel-Aviv, March 17, 2008

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

December 31,	
2007	2006
In thousands	

ASSETS

Current assets

Cash and cash equivalents	122,554	64,793
Short-term deposits	15,404	11,815
Marketable securities	3,053	11,402
Trade accounts receivable	8,106	1,959
Current tax assets	940	120
Receivables and other current assets	10,602	6,517
Yielding property intended for disposal	6,572	-
	167,231	96,606

Non current assets

Investments in affiliates	181,239	146,242
Loans and long-term receivables	27,738	53,698
Fixed assets	436	492
Inventory of land	15,365	13,190
Other investment	84,115	31,043
Deferred income taxes	397	787
	309,290	245,452

Yielding assets in -

Israel	163,678	148,530
Britain	219,300	62,494
North America	634,095	347,173
Europe	1,506,487	461,226
	2,523,560	1,019,423

3,000,081	1,361,481
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The accompanying note is an integral part of the condensed financial statements

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

December 31,	
2007	2006
In thousands	

LIABILITIES AND EQUITY

Current liabilities

Bank borrowings (including current maturities)	137,826	107,628
Current tax liabilities	1,642	1,505
Trade accounts payable	3,133	3,301
Payables and other current liabilities	82,230	(*) 32,701
	224,831	145,135

Non current liabilities

Debentures	121,231	133,903
Long-term loans to finance development projects	14,229	12,809
Liabilities in respect of index-linked options	3,262	11,827
Loans from Electra Group companies	28,962	25,518
Loans from shareholders in subsidiaries	3,072	3,995
Loan from affiliate company	5,249	27,678
Employee benefit liability, net	560	493
Other long-term liabilities	14,174	(*) 5,166
Deferred income taxes	85,069	58,438
	275,808	279,827

Loans for financing yielding assets and other investments:

Britain	217,211	37,849
North America	501,257	215,845
Europe	1,329,134	361,213
Israel	34,654	5,489
	2,082,256	620,396

Equity

Equity attributable to the Company's shareholders	410,190	306,750
Minority interests	6,996	9,373
Total equity	417,186	316,123
	3,000,081	1,361,481

(*) Reclassified.

Approval date of the financial statements

Tel - Aviv, March 17, 2008

Zvi Duskin
CFO

Shlomo Sherf
CEO

Michael Salkind
Director (**)

(**) Due to the absence of the Chairman of the Board of Directors from Israel, on March 17, 2008, the Board authorized Mr. Michael Salkind, a director in the Company, to sign the Report Financial statements the Company for the Year Ended December 31, 2007 in place of the Chairman.

The accompanying note is an integral part of the financial statements

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

	Year ended December 31,		
	2007	2006	2005
	In thousands		
Revenues			
Rental fees, management fees and others	185,531	78,716	57,228
Adjustment of fair value and results of disposal of yielding properties, net	69,316	58,634	25,209
Company's share in earnings of affiliates, net	5,370	35,795	16,412
Total revenues	260,217	173,145	98,849
Costs and Expenses			
Operating expenses and maintenance fees	57,797	28,006	19,905
General and administrative expenses	11,831	10,857	4,370
Financing expenses	101,102	32,339	24,687
Financing income from financial assets	(3,720)	(2,388)	(691)
Revaluation of liabilities in respect of index-linked options	832	9,649	2,233
Total costs and expenses	167,842	78,463	50,504
Pre-tax income	92,375	94,682	48,345
Income taxes	20,579	19,729	8,706
Net income for the period	71,796	74,953	39,639
Attributable to:			
The Company's shareholders	71,301	73,744	38,062
Minority interest	495	1,209	1,577
Net income for the period	71,796	74,953	39,639
 Earnings per share (in dollars) attributed to the Company's shareholders:			
Basic	2.78	3.09	1.78
Diluted	2.74	3.02	1.78

The accompanying note is 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, 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	(*)(**)	(*)109,247	2,079	726	8,457	186,241	306,750	9,373	316,123
Adjustments on the translation of financial statements of overseas activities, net	-	-	(1,274)	-	-	-	(1,274)	965	(309)
Revaluation of available for sale assets	-	-	-	-	7,311	-	7,311	-	7,311
Revaluation of cash flow hedges	-	-	-	-	1,493	-	1,493	-	1,493
Total income recognized directly in equity	-	-	(1,274)	-	8,804	-	7,530	965	8,495
Net income for the period	-	-	-	-	-	71,301	71,301	495	71,796
Total income for the year	-	-	(1,274)	-	8,804	71,301	78,831	1,460	80,291
Exercise of options	(**)	24,173	-	-	-	-	24,173	-	24,173
Share-based payment	-	-	-	436	-	-	436	-	436
Dividend paid to minority	-	-	-	-	-	-	-	(3,837)	(3,837)
Balance – December 31, 2007	(**)	133,420	805	1,162	17,261	257,542	410,190	6,996	417,186

(*) Reclassified.

(**) Less than \$1 thousand.

The accompanying note is 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 (In thousands)	Retained earnings	Total shareholders' Equity	Minority Interests	Total Equity
Balance - January 1, 2006	(*)	83,095	9,512	198	-	112,497	205,302	9,183	214,485
Adjustments on the translation of financial statements of overseas activities. net	-	-	(7,433)	-	-	-	(7,433)	(227)	(7,660)
Revaluation of available for sale assets	-	-	-	-	9,431	-	9,431	-	9,431
Revaluation of cash flow hedges	-	-	-	-	(974)	-	(974)	-	(974)
Total income recognized directly in equity	-	-	(7,433)	-	8,457	-	1,023	(227)	797
Net income for the period	-	-	-	-	-	73,744	73,744	1,209	74,953
Total income for the year	-	-	(7,433)	-	8,457	73,744	74,767	982	75,750
Issuance of shares (***)	(**)(*)	(**) 26,152	-	-	-	-	26,152	-	26,152
Share-based payment	-	-	-	528	-	-	528	-	528
Dividend paid to minority	-	-	-	-	-	-	-	(792)	(792)
Balance – December 31, 2006	(*)(**)	(*)109,247	2,079	726	8,457	186,241	306,750	9,373	316,123

(*) Less than \$1 thousand.

(**) Reclassified.

(***) Net of issuance expenses.

The accompanying note is 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, 2005

	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, 2005	(*)	51,615	8,138	-	74,435	134,188	7,619	141,807
Adjustments on the translation of financial statements of overseas activities, net	-	-	1,374	-	-	1,374	135	1,509
Total income recognized directly in equity	-	-	1,374	-	-	1,374	135	1,509
Net income for the period	-	-	-	-	38,062	38,062	1,577	39,639
Total income for the year	-	-	1,374	-	38,062	39,436	1,712	41,148
Issuance of shares (**)	(*)	31,480	-	-	-	31,480	-	31,480
Share-based payment	-	-	-	198	-	198	-	198
Dividend paid to minority	-	-	-	-	-	-	(148)	(148)
Balance – December 31, 2005	(*)	83,095	9,512	198	112,497	205,302	9,183	214,485

(*) Less than \$1 thousand.

(**) Net of issuance expenses.

The accompanying note is an integral part of the financial statements

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

	Year ended December 31,		
	2007	2006	2005
	In thousands		
Cash Flow - Operating Activities:			
Net income	71,796	74,953	39,639
Adjustments required to present cash flows from operating activities (Appendix A)	(44,406)	(58,618)	(24,530)
Net cash provided by operating activities	27,390	16,335	15,109
Cash Flows - Investing Activities:			
Proceeds from the sale (invest) of marketable securities, net	8,884	15,741	(25,854)
Long-term loans granted	642	(2,988)	(5,184)
Proceeds from the sale of investees that were full and proportionately consolidated (Appendix B)	24,334	7,080	18,530
Realization of short-term deposits, net	3,680	(9,195)	284
Change in deposits designated for yielding assets	26,159	(18,387)	(16,627)
Investments in shares of affiliates and other companies	(80,303)	(16,841)	(82,590)
Initial full consolidation of a subsidiary that was proportionately consolidated in the past (Appendix C)	-	(2,566)	-
Initial proportional consolidation of an affiliate (Appendix D)	-	(5,482)	-
Initial full consolidation of a subsidiary (Appendix E)	(48,314)	(18,423)	-
Acquisition and construction of yielding assets	(1,240,706)	(264,142)	(66,969)
Acquisition of fixed assets and other assets	(8)	(1,482)	(1,423)
Proceeds from disposition of yielding properties	69,200	8,196	37,163
Net cash used in investing activities	(1,236,432)	(308,489)	(142,670)
Cash Flows - Financing Activities:			
Issuance of debentures and options for debentures, net of related expenses	-	43,457	90,496
Issuance of shares options, net of issuance expenses and exercise of options to ordinary shares	-	-	1,938
Dividend paid to minority shareholders in a subsidiary	(3,837)	(792)	(148)
Issuance of shares, net of issuance expenses	14,806	24,160	31,481
Receipt of long-term loans	1,301,789	251,692	104,187
Repayment of long-term loans	(56,710)	(6,571)	(39,503)
Repayment of loans and capital notes from the Electra Group companies, net	-	(1,569)	(56,778)
Receipt (Repayment) of loans and capital notes from minority shareholders in consolidated subsidiaries, net	(1,164)	288	356
Receipt (Repayment) of loan and capital notes from an affiliate company, net	(23,353)	27,678	-
Short-term bank borrowings, net	34,727	1,038	6,567
Net cash provided by financing activities	1,266,258	339,381	138,596
Translation differences relating to cash balances in autonomous units	545	(69)	(148)
Increase in cash and cash equivalents	57,761	47,158	10,887
Cash and cash equivalents at beginning of period	64,793	17,635	6,748
Cash and cash equivalents at end of period	122,554	64,793	17,635

The accompanying note is an integral part of the financial statements

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

Year ended December 31,		
2007	2006	2005
In thousands		

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

Expenses (income) not involving cash flows:

Company's share in earnings of affiliates, net	(3,291)	(35,796)	(16,412)
Depreciation and amortization	65	707	286
Adjustment of fair value and results of disposal of yielding properties, net	(69,316)	(*) (58,634)	(*) (25,209)
Change in value of long-term receivables and liabilities, net (including interest charged to the parent company)	4,984	(3,177)	1,007
Deferred income taxes	18,473	18,423	8,164
Gain from marketable securities	(534)	(1,149)	(140)
Recording of expenses in connection with share based payments	436	528	198
Revaluation of liabilities in respect of index-linked options	832	9,649	2,233

Changes in assets and liabilities:

Trade accounts receivables	(6,112)	(923)	(746)
Receivables and other current assets	(1,757)	363	(5,097)
Trade accounts payables	(849)	1,065	592
Payables and other current liabilities	12,663	10,326	10,594
	(44,406)	(58,618)	(24,530)

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

Net assets and liabilities at acquisition:

Net working capital (excluding cash)	1,226	(1,167)	(668)
Long-term receivables	1,684	22	-
Yielding assets, net	69,271	25,992	60,943
Long-term liabilities	(46,217)	(17,686)	(41,663)
Loss from investment realization	(1,630)	(81)	(82)
	24,334	7,080	18,530

Appendix C - Initial full consolidation of a subsidiary that was proportionately consolidated in the past

Net assets and liabilities at acquisition:

Net working capital (excluding cash)	-	181	-
Fixed assets and other assets	-	(710)	-
Yielding assets, net	-	(20,164)	-
Long-term receivables	-	(2,037)	-
Long-term liabilities	-	20,164	-
	-	(2,566)	-

(*) Reclassified.

The accompanying note is an integral part of the financial statements

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

Year ended December 31,

2007 2006 2005

In thousands

Appendix D - Initial proportional consolidation of an affiliate

Net working capital (excluding cash)	9,129	551	-
Fixed assets and other assets	-	(2,222)	-
Yielding assets, net	(30,561)	(33,492)	-
Investment in affiliates	12,515	8,167	-
Long-term liabilities	8,917	21,514	-
	<u>-</u>	<u>(5,482)</u>	<u>-</u>

Appendix E - Initial full consolidation of a subsidiary

Net working capital (excluding cash)	2,437	869	-
Yielding assets, net	(293,577)	(138,759)	-
Long-term liabilities	242,826	119,467	-
	<u>(48,314)</u>	<u>(18,423)</u>	<u>-</u>

Appendix F – Additional cash flow information

Cash paid during the year:

Interest	65,199	26,219	14,669
Income taxes	3,076	125	940
	<u>68,275</u>	<u>26,344</u>	<u>15,609</u>

Cash received during the year:

Interest	1,351	743	440
Income taxes	-	541	478
	<u>1,351</u>	<u>1,284</u>	<u>918</u>

Appendix G – Non-cash transactions

Purchase of yielding property on credit	<u>15,317</u>	<u>13,056</u>	<u>7,827</u>
Conversion of liability for index-linked options to capital	<u>9,427</u>	<u>1,993</u>	<u>1,938</u>

The accompanying note is an integral part of the financial statements

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

Note 1 - General

- A.** Electra Real Estate Ltd. ("the Company") is a wholly-owned and controlled subsidiary of Electra Ltd. (formerly Electra Israel Ltd., hereinafter – "parent company", "Electra").

The Company is engaged (directly and through investees) in the purchase, rental and realization of yielding assets in Israel and overseas, and in the initiation and construction of real estate projects in Israel and overseas.

B. Definitions:

- | | | |
|---|---|---|
| "the Company" | - | Electra Real Estate Ltd. |
| "the Group" | - | The Company and its investees. Investees include companies defined as follows: |
| "investees" | - | Subsidiaries, proportionately consolidated companies and affiliates. |
| "consolidated subsidiaries" | - | Controlled companies, whose financial statements are consolidated, directly or indirectly, with those of the Company. |
| "proportionately consolidated companies" | - | Subsidiaries, including partnerships under joint control, whose financial statements are consolidated with the Company's financial statements by proportionate consolidation. |
| "affiliates" | - | Companies, except for subsidiaries and proportionately consolidated companies, in which the Group has material influence, and the Company's investment therein is included directly or indirectly in the Company's financial statements by the equity basis. |
| Electech | | Electech Real Estate B.V., a Dutch subsidiary, wholly owned by the Company, which consolidates most of the Company's activity outside Israel. In this framework, Electech executes most of the Group's investments abroad via foreign subsidiaries., and manages, finances and supervises these subsidiaries. |
| Electech INC | | Electech Real Estate Inc. – an American company, wholly owned by Electech. |
| "Electra Group" | - | Electra Ltd. and its investees. |
| "Elco Group" | - | Elco Holdings Ltd. ("Elco" – the parent company of Electra) and its investees. |
| "Interested parties" | - | As defined in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993. |
| "Controlling shareholders" | - | As defined in the Israeli Securities Regulations (Financial Statement Presentation of Transactions between a Corporation and its Controlling Shareholder), 1996. |
| "Related parties" | - | As defined in IAS 24. |
| "CPI" | - | Consumer Price Index as published by the Central Bureau of Statistics in Israel. |
| "Dollar" | - | U.S. dollar. |

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

Note 1 - General (Cont.)

C. Financial statements in dollars

The Company prepares its primary financial statements as of December 31, 2007 and 2006 in NIS. Such primary financial statements are not included herein.

The accompanying financial statements in US dollars ("dollars") represent a translation of the primary financial statements into dollars for the convenience of the reader ("convenience translation") using the representative dollar exchange rate as of December 31, 2007 (US \$1 = NIS 3.846). Comparative amounts for 2006 represent a translation of the 2006 financial statements, in accordance with the International Financing Reporting Standards (IFRS), using the representative dollar exchange rate as of December 31, 2007.

This translation has been made solely for the convenience of the reader, and it should not be construed that NIS amounts actually represent, or could be converted into, dollars.

In the accompanying financial statements, "cost" refers to booked cost, unless otherwise stipulated and "dollar" (or "\$") refers to US dollars arrived at by convenience translation.