

**ELECTRA REAL ESTATE LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2005**  
**(CONVENIENCE TRANSLATION INTO U.S. DOLLARS)**

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## ELECTRA REAL ESTATE LTD.

### REPORT OF THE BOARD OF DIRECTORS AT DECEMBER 31, 2005 AND FOR THE YEAR ENDED DECEMBER 31, 2005

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 year ended December 31, 2005 ("the Period").

#### A. The Company and its Business Environment

The Company and its investees ("the Group") operate mainly in the yielding commercial real estate in Israel and abroad, directly or through investees. Within the framework of its activity, the Group focuses on the acquisition, leasing, set up, improvement and sale of yielding commercial real estate.

As of the date of the financial statements the Group holds, in Israel and abroad, 59 yielding assets and eight assets under construction, as follows:

<u>Country</u>	<u>Yielding assets</u>	<u>Nature of asset</u>
Israel	14	Office buildings – 6; office floors-8; assets under construction- 6
Britain	11	Office buildings and 9.9% of 16 hotels
Canada	10	Office buildings – 9; logistic center - 1
USA	5	Office buildings – 4 and a residential building earmarked for conversion and sale.
Germany	17	Office buildings
Europe	2	Logistic centers in France and Hungary and an asset under construction in Poland

Total area and average occupancy rates of yielding assets (including Company's share in assets of affiliates) – 528,000 sq. m. and 91%, respectively.

#### Activity in Israel

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

#### Foreign activity

##### Britain

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

In May 2005 a proportionately consolidated subsidiary refinanced a loan totaling £6.7m (Company's share) for a period of 14.5 years, at a fixed annual interest rate of 5.57%.

In March 2005 the company, concluded a transaction to sale its entire holding (75%) in a company owning property in Brighton, Britain. The proceeds from the sale (100%) amounted to £16.33m, with the Company's share therein (75%) totaling £12.24m. The Company earned a pre-tax gain of £1.43m (\$2.6m) from the transaction, net of all associated costs.

In October 2005 the Company concluded a transaction for the sale of its entire holding (75%) in a company owning property in the Jersey Island, Britain. The proceeds from the sale of this company reflect an asset selling price (100%) of £21.2m (\$37.7m). The Company's share therein (75%) amounts to £15.9m (\$28.3m). The resultant pre-tax income, net of related expenses, amounted to £1.95m (\$3.5m) while the cash flow, net of the mortgage payment and related expenses totaled £3.82m (\$6.8m).

In December 2005 the Company concluded a transaction for the sale of its entire holding (100%) in a London property in exchange for £18.9m (\$33.0m). The resultant pre-tax income, net of related expenses, amounted to £4.4m (\$7.6m) while the cash flow, net of the mortgage payment and related expenses totaled £4.2m (\$7.4m).

In December 2005 the Company concluded a transaction for acquiring 9.9% of the rights (units) in a mutual fund ("the Fund") holding 16 hotels in England and Scotland ("the Hotels"). Accordingly, the Hotel would be managed by a Hilton management company based on a 30-year management agreement with two renewal options granted to the management company for two 10-year periods each. The Hotels, which consist of 3,124 rooms and acquired with their full content, were acquired for £417.8m (\$738.6m), including all related expenses. The purchase was financed by a non-recourse long-term loan of £331.3m (\$586.6m) from a foreign bank ("the Lender") at an annual fixed interest rate of 5.8% over a 10-year period. The Lender is entitled to receive part of the Fund's profits upon the sale of the Hotels, in accordance with the arrangement formulated with him. The Company's income from the Hotels, in which it invested \$14.8m in borrowed funds, is contingent upon the Hotels' performance. According to the Fund's available 2004 data, the 2004 income that would have been generated to the Fund from the Hotels would have amounted to £27.5m (\$48.6m).

## **Canada**

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in eight commercial buildings in Canada that are held at various rates ranging from 70% to 100% in contracts which ends between 2006 and 2022. The yielding annual rental fees amounting to C\$28.3m, net after management and maintenance fees – C\$15.3m. In addition, the company holds two buildings at an ownership rate of 49% and accounted for by the equity method. In April 2005 a proportionately consolidated subsidiary refinanced a loan, which the company's part totaling C\$36m for a period of three years, at a variable annual interest rate of 5.5% (at the balance sheet date).

## **USA**

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

In addition, the company holds four assets through companies that accounted by the equity method.

In April 2005, through an affiliate company, concluded the purchase of 60% of rights in a property located in Manhattan, on the corner of First Avenue and 90th Street, New York. The 24-storey building, whose construction was completed in 2000, consists of 128 residential units of various sizes as well as commercial and parking space at a total area of 12,200 sq. m., costing \$63m. Present occupancy rate stands at 96%, with gross annual rental fees amounting to \$4.7m (net of management and maintenance fees - \$3.2m).

The building is currently used for rental purposes and there is an intention to convert it into a condominium and sell the residential units as well as the commercial and parking space in a process expected to last until middle of 2007, at an additional cost of \$6.3m.

A US financial institution provided a loan (100%) of \$54m, at a variable annual interest rate, designated to finance the entire transaction. The loan is secured by a non-recourse first mortgage on the property as well as its rental fees. The asset is recorded as a building under construction, with the related income and expenses capitalized therein.

In June 2005 the company concluded a transaction for purchasing 45% of the shares of a foreign company holding the rights in a yielding property in Cleveland, Ohio, at a total cost (before related expenses amounting to \$3m) of \$141m for the entire asset. The property constitutes an office tower of 118,000 sq. m. plus 760 indoor parking spaces. The building is leased to various tenants for different periods, with an occupancy rate of 87%. The gross annual rental fees amount to \$22.1m (after deducting management and maintenance expenses - \$11.7m). A US financial institution financed the transaction (100%) with a non-recourse loan of \$115m, at a fixed interest rate of 5.18% for seven years period, secured by a first mortgage and the rental receipts.

In November 2005 the Company concluded a transaction for acquiring 45% of the rights in a company holding a yielding property in Connecticut, USA. The asset, a luxurious office building in the heart of Hartford's business district, was acquired (100%) for \$72.2m. The building, which occupies 78,500 sq. m. along with about 450 indoor parking spaces, is rented to various tenants, mainly UBS, ING and the Travelers Insurance Company, for different periods. The present occupancy rate is 81%, with the gross annual rental fees amounting to \$15.6m. Income net of management and maintenance expenses amount to \$5.8m, constituting a net yield of 8%. A US financial institution provided a loan of \$50.8m for financing the transaction, at an annual interest rate of 5.91% for a period of eight years. The loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

In November 2005 the Company concluded a transaction for acquiring 49% of the rights in a yielding property in St. Louis, Missouri, USA. The asset, a 12-storey office building in the heart of St. Louis's business district, was acquired (100%) for a gross amount of \$26.3m plus related expenses of \$0.8m. The building, which occupies 23,100 sq. m. along with about 35 indoor parking spaces, is rented to various tenants, for different periods, mainly Deloitte, the international audit firm, which has a lease expiring 2016. The present occupancy rate is 93%, with the gross annual rental fees amounting to \$5.4m. Income net of management and maintenance expenses amount to \$2.4m, constituting a net yield of 9%. A US financial institution provided a loan of \$22.5m for financing the transaction, at an annual interest rate of 5.72% for a period of seven years. The loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

## **Germany**

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in ten buildings that are held at rates of 50 and 75 that yield annual rental fees of €3m.

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

In March 2005 the company concluded a transaction for purchasing (a cumulative) 40% of holdings in foreign companies which own seven yielding properties in Germany, at a (100%) cost of €273m, plus related expenses totaling €9m. The yielding properties, which are located in Berlin, Hamburg, Düsseldorf, Cologne, Karlsruhe, Monster and Landshot, cover 143,661 sq. m. and are leased (in full) to Deutsch Telecom for a period expiring December 31, 2019. The lease provides for an annual increase of 1.5% in rental fees until 2010 and 1.2% from 2011 to 2019. The gross (100%) annual rental fees for all the above properties amounts to €19,688 thousand of which management and maintenance fees are to be deducted in an amount not exceeding 2% of rental fees. The beginning rental fees, net, amount to €19,294 thousand. The average annual rental fees, net, amount to €21,257 thousand.

A German financial institution provided a loan of €255m for financing the transaction, at a fixed interest rate of 4.90% for 6.25 years period. The loan is secured by a non-recourse first-tier lien on the assets and proceeds from the properties. The investment in the company are accounted for by the equity method.

In September 2005 the Company concluded the acquisition of 75% of the rights in a yielding property in western Germany, at a total cost of €25.5m, including related expenses. The five-story, 25,000-sq.-m. office and distribution building which also contains 200 parking spaces is located in Nuremberg. The entire building is leased to the WOHRL fashion network as an office building until December 2022 with no option for exit. Total net annual revenues amounts to €1.97m, linked to the German CPI at 60%.

A financial institution in Germany provided a loan of €21.8m, at a fixed interest rate of 4.635% for seven years period, secured by a first-tier non-recourse lien on the property and its receipts.

In December 2005 the Company entered a transaction for acquiring 50% of the rights in nine properties in Germany. The assets, totaling 72,800 sq. m (eight of which are located in Berlin with one in Frankfurt-Oder) were acquired (100%) for a gross amount of €41.7m (\$49.3m). Forty-five percent of the buildings are leased to Deutsche Post and Deutsche Telecom for 10 and 15-year periods, respectively, while the remaining 55% of the space are not leased. Gross annual rental fees from the leased space amount to €3.0m (\$3.5m), constituting a net yield of 7.2%. The transaction was completed after the balance sheet's date

A German financial institution provided a loan of €37.1m (\$43.9m) representing 89% of the purchase price, including expenses, at an annual interest rate of 4.85% for a period of five years. The loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

In January 2006 the Company concluded, through a partnership, a transaction for acquiring 70% of the rights in an office building in Hamburg, Germany. The asset, a six-story office building of totaling 29,200 sq. m plus about 200 indoor parking spaces, was acquired (100%) for a gross amount of €70.3m (\$83.2), plus related expenses totaling €6.5m (\$7.7m). The building is entirely leased to four tenants for various periods expiring between 2011 and 2015. Net annual rental fees (100%) amount to €5.25m (\$6.21m), linked to a mechanism providing an increment of 2% per annum payable at the beginning of the year. All management and maintenance expenses are paid by the tenants. A German financial institution provided a loan of €63.5m (\$75.2m), at an annual interest rate of 3.79% for a period of seven years. The loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

### **Hungary and France**

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

A proportionately consolidate subsidiary which held an asset under construction in Hungary sold its holding at a pre-tax gain of \$0.2m, which was included in the Company's income in the third quarter.

## **B. Financial Position**

Total balance-sheet assets on December 31, 2005 amounted to \$560.8m (December 31, 2004 – \$427.0m).

The net increase stems mainly from the proceeds of the securities issued to the public as well as the realization of yielding assets in Britain, net of the investments in (i) yielding properties (ii) assets under construction (iii) affiliates in Germany and the US and (iv) other investment in Britain.

### **Current assets**

Current assets on December 31, 2005 totaled \$47.0m as compared with \$13.5m on December 31, 2004. This increase has resulted from higher balances of cash, marketable securities and short-term deposits derived from the issuance of the company in Tel Aviv stock exchange.

### **Long-term investments**

Long-term investments on December 31, 2005 amounted to \$123.5m (December 31, 2004 – \$18.7m). The increase in the reported period stemmed mainly from an investment in affiliates which owns a yielding assets in Germany and in the US.

### **Yielding assets**

Total yielding assets on December 31, 2005 amounted to \$384.1m as compared with \$389.8m on December 31, 2004. The Company realized yielding assets in Britain and invested in assets located in North America and Europe.

### **Current liabilities**

Total current liabilities on December 31, 2005 amounted to \$49.0m (December 31, 2004 – \$54.3m), with this increase mainly reflecting short-term loans obtained for asset acquisition. The net reduction stemmed mainly from the conversion of long-term loans into short-term loans. The improvement in working capital stemmed from the investment of the issuance proceeds in liquid means.

## 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 \$386.3m as compared with \$294.2m on December 31, 2004. The increase resulted mostly from the issuance of debentures to the public and from non-recourse loans obtained for investment in yielding assets in North America and in Germany. On December 31, 2005 the bank loans, which amounted to \$222.0m, constituted non-recourse loans secured by a first-tier lien on the asset and the receipts in respect thereof.

## Shareholders' equity

Shareholders' equity amounted on December 31, 2005 to \$124.2m as compared with \$77.2m at the end of 2004. The shareholders' equity increased in the reported period in \$27.9m mainly following the Company's issuance in August 2005 of shares and options to the public, in addition to net income for the period (\$25.9m). On the other hand, it has declined by \$6.5m due to the implementation of the Israeli Securities Authority decision to capitalize the management fees paid to the parent company and allocate the liability created in respect thereof against a capital reserve from transactions with a controlling party within the framework of shareholders' equity.

## C. Results of operations

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

	<u>Quarter 10-12/05</u>	<u>Quarter 7-9/05</u>	<u>Quarter 4-6/05</u>	<u>Quarter 1-3/05</u>	<u>Quarter 10-12/04</u>
Revenues	23,575	12,672	11,808	14,411	10,835
Operating expenses	<u>10,673</u>	<u>6,311</u>	<u>5,680</u>	<u>5,892</u>	<u>5,133</u>
Operating income before net financing	12,902	6,361	6,128	8,519	5,702
Financing expenses, net	<u>4,571</u>	<u>4,830</u>	<u>4,160</u>	<u>4,298</u>	<u>4,751</u>
Pre-tax income	8,331	1,531	1,968	4,221	951
Income taxes	<u>2,272</u>	<u>(176)</u>	<u>379</u>	<u>814</u>	<u>81</u>
Income after taxes on income	6,059	1,707	1,589	3,407	870
Company's share in earnings of affiliates, net	8,313	1,527	2,441	880	418
Minority interest in the results, net	<u>49</u>	<u>(103)</u>	<u>4</u>	<u>(15)</u>	<u>(28)</u>
Net income	<u><b>14,421</b></u>	<u><b>3,131</b></u>	<u><b>4,034</b></u>	<u><b>4,272</b></u>	<u><b>1,260</b></u>

## Revenues

Last-quarter revenues totaled \$23.6m as compared with \$10.8m in the corresponding period in 2004, and they include a total of \$11.17m from realization of assets  
Total 2005 revenues amounted to \$62.5m against \$41.3m in the corresponding period last year and they include a total of \$14.0m from realization of assets, compared with \$3.2m in the corresponding period last year.

The Company's share in its affiliates' rental income during the last quarter amounts to \$12.4m (same period last year – \$10.8m), with this share in the reported period amounting to \$36.9m (same period last year – \$13.3m).

## **Operating income before financing**

Operating income in the last quarter of 2005 amounted to \$12.9m as compared with \$5.7m in the same quarter last year. Operating income before financing in 2005 amounted to \$33.9m as compared with \$23.6m in 2004. The operating income has been affected by asset realization, as noted above, and the write-down of assets in 2005 and 2004 in the amounts of \$1.9m and \$0.4m, respectively.

## **Financing expenses**

Company's total financing expenses in the last quarter of 2005 amounted to \$4.6m compared with \$4.8m in the same quarter last year. During 2005 the financing expenses totaled \$17.9m as compared with \$15.6m in 2004.

The financing expenses during 2005 include \$12.3m in respect of long-term loans obtained from financial institutions abroad for financing the acquisition of yielding assets abroad. These loans are secured by a fixed lien registered on the buildings. The Company provided neither additional guarantees nor collateral in respect thereof.

## **Income taxes**

Following the recent amendment (No.147) of the Income Tax Ordinance, according to which the Israeli corporate income-tax rates would be reduced starting in 2006, the Company's tax expense in the third quarter of 2005 declined by \$0.3m.

## **Net income**

Net income in the last quarter of 2005 amounted to \$14.4m as compared with \$1.3m in the same quarter last year. Net income during 2005 amounted to \$25.9m as compared with \$8.8m in the same period last year, an increase of 322%.

Foreign, indirectly owned, affiliates which prepares their financial statements in accordance with international accounting standards, including Standard No. 40 based on which yielding real estate is presented at fair value, reported in their statements of operations a gain derived from valuation of yielding property. The fair value determined based on an independent appraiser's valuation based on the fair value of the yielding property. The Company's share in the abovementioned increase in asset value, which amounts to \$0.6m, \$1.9m and \$8.8m are included in the item titled "Company's share in earnings of affiliates" in the first quarter, second quarter and fourth quarter of 2005, correspondingly.

In the fourth quarter of 2005 the Company recorded a provision of \$0.7m in respect of its investment in foreign affiliates.

## **Liquidity and financing resources**

During the reported period operating activities provided the Company with cash flows totaling \$12.62m, as compared with \$12.6m last year. The higher revenues from asset realizations in 2005 which amounted to \$14.0m, compared with \$3.2m in 2004, has had no effect on cash flows.

## **Cash flows used in investment activities**

Cash flows from investment activities in 2005, which amounted to \$119.2m, compared with \$144.2m in 2004, have been primarily affected by an investment in properties through US affiliates, instead of direct investment in properties as well as an investment in another company in Britain.

## **Cash flows provided by financing activities**

Cash flows from financing activities in 2005, which amounted to \$115.8m, compared with \$132.3m in 2004, have been primarily affected by an issuance of debentures and shares, net of related expenses and the receipt of long term as well as short-term loans on the one hand and redemption of loans and capital notes to the parent company (Electra Ltd.) on the other.

#### D. FFO (Funds from Operations)

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

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

It should be noted that the FFO:

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

The following FFO computations pertain to the reported periods:

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>In thousands \$</b>		
Net profit	<u>25,859</u>	<u>8,010</u>	<u>6,463</u>
Adjustments:			
Net gain from sales of assets and investments- net of allocated expenses	(9,993)	(2,699)	(607)
Depreciation and amortization	6,772	5,661	4,473
Asset write-down plus allocated expenses	1,704	-	-
Capital gain from a subsidiary’s share issuance	-	(365)	-
Adjustments in respect of minority interest in subsidiaries	(430)	(441)	(444)
Adjustments in respect of the Company’s equity in affiliates’ earnings (*)	(8,533)	739	549
Adjustments in respect of prior years (Regulation 59d).	<u>(54)</u>	<u>(192)</u>	<u>317</u>
Total adjustments	<u>(10,534)</u>	<u>2,703</u>	<u>4,288</u>
<b>F.F.O</b>	<u>15,325</u>	<u>10,713</u>	<u>10,751</u>

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

## **E. General**

1. On August 2005 the Company published a prospectus and issued shares, debentures, options for debentures and options for shares. The proceeds in respect of the issuance, net of related expenses amounting to \$3.5m, totaled \$77.1m. The additional proceeds stemming from the exercise of the options into debentures amounted to about \$26.5m.
2. In August 2005 the Company's board of directors Approved agreements signed between Electra Ltd. and the company for arranging issues outlined below.
  - a. Loan repayment schedules provided by Electra Ltd. to the company totaled \$75.6m.
  - b. Payment for management services, wage reimbursement and others to Electra Ltd.
  - c. Submission of electro-mechanical projects, finishing work and property-management services for assets wholly controlled by the company in Israel.
  - d. A payment equaling 6.5% of the earnings of the company to Electra Ltd. within the framework of the comprehensive arrangement at the Elco Group for the payment of management fees based on the pre-tax income.
3. In August 2005 the board of directors approved a program to allot 600,000 options to three executives. The options will grant the executives a right to buy shares at a discount and may be exercised in three annual equal batches starting two to five years following the allotment.

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

### **Officers responsible for managing market risks**

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

### **Company's policy and method for managing business risk**

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

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

## **G. Balance sheet linkage basis report**

See appendix enclosed herewith.

## **H. 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

A management professor at Tel Aviv University's management 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:

A management professor at The College for Management. 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 Hevrat 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.

## **I. 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.

### **Impairment of assets and investment**

The Company examines the recoverable amount of its real estate whenever any signs indicate that Group book values exceed market values. In that case, the Group is required to estimate the impairment, which it has to record in its financial statements. These estimates are made based on assessments obtained from a land appraiser. Changes in assumptions and estimates made by the abovementioned appraisers or Company management may lead to a change in the amount of the write-down which was estimated in the past and thus affect the company's results of operations.

### **Changes in fair value of real estate owned by affiliates**

The determination of fair value of real estate owned by foreign affiliates which prepare their financial statements in conformity with international accounting standards, including IAS No.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.

**J. Disclosure concerning the Company's Internal Auditor**

The Company's Internal Auditor, Mr. Hille Lavi, holds this position since November 15, 2005. Holds an MBA in auditing and possesses several years' experience in this field. He also functions as the internal auditor of Elco Holdings Ltd. and its subsidiaries.

The scope of the internal audit work is derived from the internal-audit program, which is drawn from the multi-year program, intended coverage of operating segments, risk centers, management's exposure, savings and efficiency, cycle of coverage and follow-up procedures aimed at rectifying noted deficiencies.

**K. Disclosure concerning consent for peer review**

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

**L. Disclosure concerning the independent auditor's fee**

The firm of Brightman Almagor & Co. serves as the Company's independent auditor and its 2005 fees for audit and tax services amounted to \$39.8 thousand (2004- \$26.3 thousand). The fees paid to other CPA firms in 2005 and 2004 for similar services follow: Canadian's bank corporations- \$118.6 thousand to the audit firm of KMPG (2004 - \$51.3 thousand). The Belling Group - \$71.7 thousand to Harold Everett Wreford – an audit firm (2004 - \$77.6 thousand). Alcatech Inc - \$16.3 thousand to Wall Einhorn & Chernitzer- an audit firm.

The independent auditor's fee for additional services during 2005 amounted to \$81.0 thousand and it included tax consultations and due-diligence work carried out in 2004. The independent auditor's fee for additional services during 2004 amounted to \$13.0 thousand and it included audit and tax consultations.

The following fees were paid for services rendered to subsidiaries to-

The fees paid for services rendered to subsidiaries in 2005 and 2004 follow: Canadian's bank corporations - \$43.9 thousand for 2005 and \$35.4 thousand for 2004 to the audit firm of KPMG. Alcatech Inc - \$38 thousand to the audit firm of Wall Einhorn & Chernitzer.

**Donations**

The Company has no stated policy in regard to donations.

On behalf of the Board of Directors:

\_\_\_\_\_  
**Shlomo Sherf**  
CEO

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

**March 29, 2006**

**ELECTRA REAL ESTATE LTD.**

**APPENDIX**  
**TO THE REPORT OF THE BOARD OF DIRECTORS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**Balance sheet linkage basis - December 31, 2005**  
**(Table 1)**

	<b>Linked to Foreign currency(*)</b>	<b>CPI- linked</b>	<b>Unlinked</b>	<b>Balance</b>	<b>Balance- sheet total</b>
	<b>(in thousand US dollars)</b>				
Cash and cash equivalents	7,512	-	7,223	-	14,735
Short-term deposits	2,435	-	151	-	2,586
Marketable securities	-	-	21,719	-	21,719
Trade accounts receivable	760	-	167	-	927
Receivables and other current assets	2,150	407	364	4,100	7,021
Investments in investees	25,631	-	664	55,749	82,044
Other investment	14,773	-	-	-	14,773
Long-term receivables	24,290	-	-	-	24,290
Deferred income taxes	-	-	-	2,419	2,419
Fixed assets, net	-	-	-	130	130
Yielding assets, net	-	-	-	384,087	384,087
Other assets, net	-	-	-	6,085	6,085
<b>Total assets</b>	<b>77,551</b>	<b>407</b>	<b>30,288</b>	<b>452,570</b>	<b>560,816</b>
Short-term bank borrowings to finance yielding assets	28,178	-	2,693	-	30,871
Trade accounts payable	1,464	-	522	-	1,986
Payables and other current liabilities	10,725	92	5,325	-	16,142
<b>Long-term loans to finance yielding assets in-</b>					
Britain	41,278	-	-	-	41,278
North America	168,394	-	-	-	168,394
Europe	59,466	-	-	-	59,466
Capital notes	-	-	11	-	11
Debentures	-	78,573	-	-	78,573
Liability from capitalization of management fees to a controlling shareholder	-	-	-	8,609	8,609
Loan from Electra Group companies	24,252	-	-	-	24,252
Loans from minority shareholders in subsidiaries	3,363	-	-	-	3,363
Deferred income taxes	-	-	-	2,391	2,391
Minority interest	-	-	-	1,224	1,224
<b>Total liabilities</b>	<b>337,120</b>	<b>78,665</b>	<b>8,551</b>	<b>12,224</b>	<b>436,560</b>
<b>Net balance sheet amount</b>	<b>(259,569)</b>	<b>(78,258)</b>	<b>21,737</b>	<b>440,346</b>	<b>124,256</b>
Classification of balances linked to the functional currencies of autonomous units	245,685	-	-	-	245,685
<b>Total exposure of assets (liabilities)</b>	<b>(13,884)</b>	<b>(78,258)</b>	<b>21,737</b>	<b>440,346</b>	<b>369,941</b>

**ELECTRA REAL ESTATE LTD.**

**APPENDIX**  
**TO THE REPORT OF THE BOARD OF DIRECTORS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

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

	<u>US Dollar</u>	<u>Sterling</u>	<u>Euro</u>	<u>Canadian dollar</u>	<u>Other</u>	<u>Linked to foreign currency</u>
	<u>(in thousand US dollars)</u>					
Cash and cash equivalents	1,702	1,481	2,094	2,235	-	7,512
Short-term deposits	752	149		1,534	-	2,435
Marketable securities						
Trade accounts receivable	129	-	2	629	-	760
Receivables and other current assets	18	834	14	1,284	-	2,150
Investments in investees	9,292		11,908	4,431	-	25,631
Other investment	-	14,773	-	-	-	14,773
Long-term receivables	2,026	1,020	18,525	2,719	-	24,290
Deferred income taxes	-	-	-	-	-	-
Fixed assets, net	-	-	-	-	-	-
Yielding assets, net	-	-	-	-	-	-
Other assets and net deferred charges, net	-	-	-	-	-	-
<b>Total assets</b>	<b>13,919</b>	<b>18,257</b>	<b>32,543</b>	<b>12,832</b>	<b>-</b>	<b>77,551</b>
Short-term bank borrowings to finance yielding assets	8,815	1,290	8,327	1,364	8,382	28,178
Trade accounts payable			25	1,438	1	1,464
Payables and other current liabilities	352	4,803	2,902	2,470	198	10,725
<b>Long-term loans to finance yielding assets in-</b>					-	-
Britain	-	41,278	-	-	-	41,278
North America	54,408	-	-	113,986	-	168,394
Europe	1,100		58,366			59,466
Capital notes	-	-	-	-	-	-
Debentures	-	-	-	-	-	-
Liability from capitalization of management fees to a controlling shareholder	-	-	-	-	-	-
Loan from Electra Group companies	-	-	3,477	20,775	-	24,252
Loans from minority shareholders in subsidiaries	-	75	-	3,288	-	3,363
Deferred income taxes	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
<b>Total liabilities</b>	<b>64,675</b>	<b>47,446</b>	<b>73,097</b>	<b>143,321</b>	<b>8,581</b>	<b>337,120</b>
<b>Net balance sheet amount</b>	<b>(50,756)</b>	<b>(29,189)</b>	<b>(40,554)</b>	<b>(130,489)</b>	<b>(8,581)</b>	<b>(259,569)</b>
Classification of balances linked to the functional currencies of autonomous units	45,253	29,189	40,554	130,489	200	245,685
<b>Total exposure of assets (liabilities)</b>	<b>(5,503)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,381)</b>	<b>(13,884)</b>

## 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, 2005 and 2004, and the related statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005, and have issued our unqualified report thereon dated March 29, 2006.

As noted in our above-mentioned independent auditors' report, we have not audited the financial statements of consolidated subsidiaries, whose assets, at December 31, 2005, constitute approximately 68.3% of total consolidated assets at that date (2004 - 73.5%), and whose revenues, for the three years ended December 31, 2005, 2004 and 2003, constitute approximately 88%, 83% and 74%, 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, 2005 and 2004 amounted to \$82,044 thousand and \$14,262 thousand, respectively, and the Company's share in their results for the three years ended December 31, 2005 amounted to \$13,162 thousand, \$1,073 thousand and \$996 thousand, 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 generally accepted accounting principles and to presentation in accordance with the Israeli Securities Regulations.

As described in Note 1f herein, the accompanying English-language condensed consolidated financial statements in US dollars ("dollars") represent a translation of the above-mentioned reported 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, 2005. Comparative amounts for 2004 represent a translation of the original reported (2003-adjusted amount) NIS values of the respective year, using the representative dollar exchange rate in effect on December 31, 2005.

As explained in Note 2b, the financial statements for dates and reported periods subsequent to December 31, 2003 are presented in reported amounts, in accordance with the accounting standards of the Israeli Accounting Standards Board. The financial statements for the year ended in December 31, 2003 are presented in values adjusted until then, based on the changes in the general purchasing power of the Israeli currency and in accordance with the pronouncements of the Institute of Certified Public Accountants in Israel.

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

**Brightman Almagor & Co.**  
Certified Public Accountants

Tel-Aviv, April 25, 2006

**ELECTRA REAL ESTATE LTD.  
BALANCE SHEETS**

**CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	<b>Consolidated</b>		<b>Company</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>(in thousands)</b>			
<b>Current assets</b>				
Cash and cash equivalents	14,735	5,639	7,010	2
Short-term deposits	2,586	2,658	151	190
Marketable securities	21,719	-	21,719	-
Trade accounts receivables	927	303	-	-
Receivables and other current assets	7,021	4,872	747	418
	<u>46,988</u>	<u>13,472</u>	<u>29,627</u>	<u>610</u>
<b>Long-term receivables and investments</b>				
Loan and long-term receivables	24,290	4,325	14,525	1,194
Investments in affiliates	82,044	14,262	205,054	104,148
Other investment	14,773	-	-	-
Deferred income taxes	2,419	80	2,419	80
	<u>123,526</u>	<u>18,667</u>	<u>221,998</u>	<u>105,422</u>
<b>Yielding assets in -</b>				
Israel	111,459	107,743	59,814	55,779
Britain	49,450	114,172	-	-
North America	167,050	153,064	-	-
Europe	56,128	14,779	-	-
	<u>384,087</u>	<u>389,758</u>	<u>59,814</u>	<u>55,779</u>
<b>Fixed assets, net</b>	<u>130</u>	<u>274</u>	<u>17</u>	<u>132</u>
<b>Other assets, net</b>	6,085	4,837	2,499	-
	<u>560,816</u>	<u>427,008</u>	<u>313,955</u>	<u>161,943</u>

The accompanying notes are an integral part of the financial statements

**ELECTRA REAL ESTATE LTD.  
BALANCE SHEETS**

**CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	Consolidated		Company	
	December 31		December 31	
	2005	2004	2005	2004
	(in thousands)			
<b>Current liabilities</b>				
Loans to finance yielding assets (including current maturities of long-term loans)	30,871	43,681	27,455	33,120
Trade accounts payable	1,986	1,491	365	-
Payables and other current liabilities	16,142	9,169	4,776	1,043
	<u>48,999</u>	<u>54,341</u>	<u>32,596</u>	<u>34,163</u>
<b>Loans to finance yielding assets in -</b>				
Britain	41,278	91,588	-	-
North America	168,394	122,229	39,528	13,777
Europe	59,466	9,883	9,618	-
	<u>269,138</u>	<u>223,700</u>	<u>49,146</u>	<u>13,777</u>
<b>Long-term liabilities</b>				
Capital notes	11	11	-	-
Debentures	78,573	-	78,573	-
Liability from capitalization of management fees to a controlling shareholder.	8,609	-	8,609	-
Loans from Electra Group companies	24,252	65,830	20,775	36,825
Loans from minority shareholders in subsidiaries	3,363	2,784	-	-
Deferred income taxes	2,391	1,819	-	-
	<u>117,199</u>	<u>70,444</u>	<u>107,957</u>	<u>36,825</u>
<b>Minority interest</b>	<u>1,224</u>	<u>1,345</u>	<u>-</u>	<u>-</u>
<b>Shareholders' equity</b>	<u>124,256</u>	<u>77,178</u>	<u>124,256</u>	<u>77,178</u>
	<u>560,816</u>	<u>427,008</u>	<u>313,955</u>	<u>161,943</u>

\_\_\_\_\_  
**Zvi Duskin**  
CFO

\_\_\_\_\_  
**Shlomo Sherf**  
CEO

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

**Approval date of the financial statements:**

**Rishon Le'Zion, March 29, 2006.**

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

**ELECTRA REAL ESTATE LTD.  
STATEMENTS OF OPERATIONS**

CONVENIENCE TRANSLATION INTO U.S. DOLLARS

	Consolidated			Company		
	December 31			December 31		
	2005	2004	2003	2005	2004	2003
	(in thousands)					
Revenues	62,466	41,291	30,598	2,668	2,446	3,056
Operating expenses	28,555	17,671	10,611	5,592	1,974	1,291
<b>Operating income</b>	33,911	23,620	19,987	(2,924)	472	1,765
Financing expenses, net	17,859	15,562	12,303	415	662	1,023
Other income	-	365	-	-	-	-
<b>Pre-tax tax income</b>	16,052	8,423	7,684	(3,339)	(190)	742
Income taxes	3,290	585	1,694	(186)	179	599
<b>Income after taxes on income</b>	12,762	7,838	5,990	(3,153)	(369)	143
Company's share in income of affiliates, net	13,162	1,073	996	29,012	8,379	6,320
Minority interest in income of subsidiaries, net	(65)	(901)	(523)	-	-	-
<b>Net income for the year</b>	<u>25,859</u>	<u>8,010</u>	<u>6,463</u>	<u>25,859</u>	<u>8,010</u>	<u>6,463</u>
<b>Earnings (loss) per share:</b>						
Basic and fully diluted EPS (in dollars)	<u>12.1</u>	<u>5.5</u>	<u>5.4</u>	<u>12.1</u>	<u>5.5</u>	<u>5.4</u>
Basic and fully diluted EPS (per NIS 1 par value) – in thousand dollars.	<u>1.21</u>	<u>0.55</u>	<u>0.54</u>	<u>1.21</u>	<u>0.55</u>	<u>0.54</u>
Number of shares used in EPS computations (in thousands)	<u>21,398</u>	<u>14,691</u>	<u>11,992</u>	<u>21,398</u>	<u>14,691</u>	<u>11,992</u>

The accompanying notes are an integral part of the financial statements

**ELECTRA REAL ESTATE LTD.  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	Share Capital(*)	Additional paid-in capital	Receipts on account of stock options	Capital reserve from foreign currency translation adjustment	Capital reserve arising from transactions with a controlling party	Retained earnings	Total
(In thousand U.S. dollars)							
<b>Balance - January 1, 2003</b>	-	-	-	734	91	16,175	17,000
Foreign currency translation adjustment of autonomous units	-	-	-	1,503	-	-	1,503
Net income for the year	-	-	-	-	-	6,463	6,463
<b>Balance - December 31, 2003</b>	-	-	-	2,237	91	22,638	24,966
Issuance of shares (**)	-	43,126	-	-	-	-	43,126
Foreign currency translation adjustment of autonomous units	-	-	-	1,302	-	-	1,302
Capital reserve in respect of CPI-Link differences upon loans from a controlling party	-	-	-	-	(91)	(135)	(226)
Net income for the year	-	-	-	-	-	8,010	8,010
<b>Balance - December 31, 2004</b>	-	43,126	-	3,539	-	30,513	77,178
Issuance of shares (**)	-	26,303	-	-	-	-	26,303
Issuance of stock options (**)	-	-	1,619	-	-	-	1,619
Capital reserve from capitalization of management fees to a controlling party.	-	-	-	-	(6,457)	-	(6,457)
Capital reserve in respect of financing expenses to a controlling party	-	-	-	-	-	(219)	(219)
Foreign currency translation adjustment of autonomous units	-	-	-	(27)	-	-	(27)
Net income for the year	-	-	-	-	-	25,859	25,859
<b>Balance - December 31, 2005</b>	-	69,429	1,619	3,512	(6,457)	56,153	124,256

(\*) Less than \$1 thousand.

(\*\*) Net of issuance expenses.

The accompanying notes are an integral part of the financial statements

**ELECTRA REAL ESTATE LTD.  
STATEMENTS OF CASH FLOWS**

**CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	Consolidated			Company		
	December 31			December 31		
	2 0 0 5	2 0 0 4	2 0 0 3	2 0 0 5	2 0 0 4	2 0 0 3
	(in thousands)					
<b>Cash flows from operating activities:</b>						
Net income	25,859	8,010	6,463	25,858	8,010	6,463
Adjustments required to present cash flows from operating activities (Appendix A)	(13,235)	4,586	6,126	(20,890)	(6,422)	(2,512)
<b>Net cash provided by operating activities</b>	<u>12,624</u>	<u>12,596</u>	<u>12,589</u>	<u>4,968</u>	<u>1,588</u>	<u>3,951</u>
<b>Cash flows from investing activities:</b>						
Proportionately consolidated subsidiaries that were previously fully consolidated (Appendix C)	-	(308)	-	-	-	-
Investment in marketable securities	(21,602)			(21,602)	-	-
Long-term loans granted	(5,656)	(1,143)	(4,262)	(3,406)		
Collection of long-term debits (also from affiliate)	1,325	155	14	1,247	-	-
Proceeds from the sale of an investees that were proportionately consolidated (Appendix B)	15,483	2,727	-	-	-	-
Short-term deposits, net	237	(2,129)	111	39	(62)	(55)
Investment in deposits earmarked for investment in yielding properties	(13,892)	-	-	(11,171)		
Investment in investees and other investment	(69,007)	(3,935)	(2,782)	(67,515)	(30,877)	(9,651)
Acquisition and construction of yielding assets	(55,956)	(136,032)	(27,547)	(6,000)	(4,571)	(2,538)
Acquisition of fixed assets and other assets	(1,189)	(3,494)	(170)	(17)	-	-
Proceeds from disposition of yielding properties	31,051	-	26,577	-	-	-
<b>Net cash used in investing activities</b>	<u>(119,206)</u>	<u>(144,159)</u>	<u>(8,059)</u>	<u>(108,425)</u>	<u>(35,510)</u>	<u>(12,244)</u>
<b>Cash flows from financing activities:</b>						
Issuance of debentures and options for debentures, net of related expenses	75,613	-	-	75,613	-	-
Issuance of stock options, net of related expenses	1,619	-	-	1,619	-	-
Receipt of a dividend from a subsidiary	-	-	-	202	-	-
Dividend paid to minority shareholders in a subsidiary	(124)	(546)	(150)	-	-	-
Issuance of shares to minority in a subsidiary	-	537	-	-	-	-
Issuance of shares, net of related expenses	26,304	43,126	-	26,304	43,126	-
Receipt of long-term loans	87,053	144,586	27,925	22,756	13,949	7
Repayment of long-term loans	(33,007)	(27,494)	(37,051)	(965)	(2,907)	(4,399)
Receipt (repayment) of loans and redemption of capital notes from Electra Group, net	(47,440)	(43,967)	10,284	(20,549)	(35,870)	11,674
Receipt of loans and capital notes from minority shareholders in a consolidated subsidiaries, net	298	505	794	-	-	-
Short-term bank borrowings, net	5,487	15,549	(4,746)	5,485	15,603	1,025
<b>Net cash provided (used) by financing activities</b>	<u>115,803</u>	<u>132,296</u>	<u>(2,944)</u>	<u>110,465</u>	<u>33,901</u>	<u>8,307</u>
<b>Translation differences in respect of cash at autonomous units</b>	<u>(125)</u>	<u>261</u>	<u>233</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Increase in cash and cash equivalents</b>	<u>9,096</u>	<u>994</u>	<u>1,819</u>	<u>7,008</u>	<u>(21)</u>	<u>14</u>
<b>Cash and cash equivalents at the beginning of the year</b>	<u>5,639</u>	<u>4,645</u>	<u>2,826</u>	<u>2</u>	<u>23</u>	<u>9</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>14,735</u>	<u>5,639</u>	<u>4,645</u>	<u>7,010</u>	<u>2</u>	<u>23</u>

The accompanying notes are an integral part of the financial statements

**ELECTRA REAL ESTATE LTD.  
STATEMENTS OF CASH FLOWS**

CONVENIENCE TRANSLATION INTO U.S. DOLLARS

Consolidated			Company		
December 31			December 31		
2005	2004	2003	2005	2004	2003
(in thousands)					

**Appendix A - Adjustments to reconcile net income to net cash provided by operating activities:**

**Expenses (income) not involving cash flows:**

Company's share in earnings of investees, net	(13,162)	(1,073)	(996)	(29,012)	(8,379)	(6,320)
Minority interest in earnings of subsidiaries, net	65	901	523	-	-	-
Depreciation and amortization	8,665	5,660	4,474	2,611	1,153	1,052
Change in value of long-term receivables and liabilities, net (including the allocation of interest to the parent company)	1,537	3,519	4,743	2,437	1,965	3,406
Deferred income taxes	478	(411)	101	(186)	(108)	(128)
Capital gain from realization of investments and sales of assets	(14,008)	(3,223)	(607)	-	-	-
Capital gain from stock allocation to minority in consolidated company	-	(365)	-	-	-	-
Gain from marketable securities	(117)	-	-	(117)	-	-
<b>Changes in assets and liabilities:</b>						
Trade accounts receivables	(612)	(134)	(58)	-	38	(38)
Receivables and other current assets	(1,450)	(1,912)	(2,427)	(527)	(367)	(834)
Trade accounts payables	355	(101)	1,404	365	-	-
Payables and other current liabilities	5,014	1,725	(1,031)	3,539	(724)	350
	(13,235)	4,586	6,126	(20,890)	(6,422)	(2,512)

**Appendix B - Proceeds from the sale of a proportionately consolidated affiliate**

Net working capital (excluding cash)	(559)	(520)
Other assets	-	88
Yielding assets	44,493	8,729
Long-term liabilities	(34,811)	(8,793)
Profit from investment realization	6,360	3,223
	15,483	2,727

**Appendix C - Proportionately consolidated subsidiaries that were previously fully consolidated**

Net working capital (excluding cash)	(453)
Yielding assets	22,300
Long-term liabilities	(19,486)
Minority interest	(2,669)
	(308)

The accompanying notes are an integral part of the financial statements

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

**NOTE 1 - GENERAL**

- a. Electra Real Estate Ltd. ("the Company") is owned and controlled subsidiary of Electra Ltd. (formerly: Electra (Israel) Ltd. - "the parent company").  
The Company is engaged (both directly and through investees) in the acquisition, lease and realization of yielding properties as well as the development and set up of real estate projects - in Israel and abroad.
- b. The Company's financial statements are prepared in accordance with the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.
- c. The statements of operations classify the various categories in a format which – in management's opinion - is appropriate to the nature of Company's activities as well as its income and expenses. This format differs from the one required by the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993, yet used in accordance with its Regulation No.8, which allows such a departure.

**d. Issuance of securities to the public:**

In August 2005 the Company issued to the public securities by way of a package allotment, based on a prospectus published on August 9, 2005, with the proceeds amounting to \$77m (net of issuance expenses totaling \$3.5m). The allocation of the proceeds to the issued securities was made on the basis of these securities market value during the first three trading days, as follows: debentures (Series A), options (Series 1) and options (Series 2), based on the average market value during the first three trading days, with the balance of the proceeds allocated to shares.

The following is an outline of the issued securities and the allocated proceeds in respect thereof:

**1. Shares:**

A total of 3.6m ordinary shares, registered in name, of NIS 0.0001 par value each. The proceeds, net of issuance expenses, which have been allocated to share capital and share premium, amounted to \$26m.

**2. Debentures:**

A total of NIS 220m of par-value debentures (Series A) registered in name and trading on a stock exchange. These debentures, which bear annual interest of 5.5%, are linked to the CPI of July 2005 and redeemable in six annual installments on each August 17th between 2008 and 2013 (inclusive). The proceeds, net of issuance expenses, amounted to \$48m. As for the issuance of debentures (Series A) which stemmed from the exercise of options (Series 2) – see item 4 below.

**3. Options (Series 1):**

A total of 2.2m options (Series 1), exercisable on any trading day over a four-year period, so that each option may be exercised into one ordinary share in exchange for an exercise price of NIS 47.30, linked to the CPI of July 2005 from the date of registration for trade until July 31, 2005 and from registration date until July 31, 2007 at an exercise price of NIS 53.50 linked to the CPI of July 2005 and from August 1, 2007 until July 31, 2009, except for the 12th and 16th of each month between 2005 and 2009. Any options not exercised by then will expire with no refunds or rights allocation of any sort.

The proceeds, net of issuance expenses, which were allocated to options (Series 1) amounted to \$1.6m.

Elco Holdings Ltd. (the parent company of Electra Ltd. – the Company's controlling party) purchased on the first trading day - pursuant to its obligation within the framework of the prospectus - a total of 984,333 options (Series 1) at NIS 3.50 (\$0.76) per unit.

No options were exercised during the reported period into shares.

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

**NOTE 1 - GENERAL (CONT.)**

**d. Issuance of securities to the public (cont.):**

**4. Options (Series 2):**

A total of 1.2m options (Series 2), exercisable into NIS120m par value of debentures (Series A) on any trading day during 60 days from registration for trade on a stock exchange, so that each options would be exercised into NIS 100 par value of debentures (Series A) against an unlinked cash payment of NIS 102 (\$22.16).

All the options (Series 2) were exercised during the exercise period into 120m par-value debentures in exchange for NIS 122.4m (\$26.6).

**e. Definitions**

**The Group -** the Company and its investees. (A list of the active Group companies is presented in an appendix to the financial statements).

**Investees -** consolidated, proportionately consolidated and affiliated companies.

**Consolidated subsidiaries -** controlled companies, whose financial statements are consolidated, directly or indirectly, with those of the Company.

**Proportionately consolidated subsidiaries -** jointly controlled companies and partnerships whose financial statements are proportionately consolidated with the Company's.

**Affiliates -** companies, other than consolidated subsidiaries and proportionately consolidated subsidiaries in which the Company exercises material influence and the Company's investment therein is accounted by the Company, directly or indirectly, by the equity method.

**Electra Group companies -** Electra Ltd. and its investees.

**Elco Group companies -** Elco Holdings Ltd. (Elco, Electra parent's company) and its investees.

**Interested parties -** as defined in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

**Controlling parties -** as defined in the Israeli Securities Regulations" (Presentation of Transactions Between a Company and Its Controlling Parties in the Financial Statements), 1996.

**Related parties -** As defined by Opinion No. 29 of the Institute of Certified Public Accountants in Israel.

**CPI -** Consumer price index in Israel.

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

**NOTE 1 - GENERAL (CONT.)**

**f. Financial statements in dollars**

As described below, the Company prepares its primary financial statements as of December 31, 2005 and 2004 in reported NIS and the financial statements for reported periods up to December 31, 2003 are presented in adjusted amounts, on the basis of historical cost adjusted for changes in the general purchasing power of the NIS ("primary financial statements"). 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, 2005 (US \$1 = NIS 4.603). Comparative amounts for 2004 represent a translation of the original primary 2004 financial statements, in reported amounts in accordance with the accounting standards of the Israeli Accounting Standards Board, using the representative dollar exchange rate as of December 31, 2005. Comparative amounts for 2003 represent a translation of the original primary 2003 financial statements, in adjusted amounts for changes in the general purchasing power in the respective year, using the representative dollar exchange rate as of December 31, 2005.

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 (see Note 2b).

**g. Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates and assumptions. These affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities, at the balance sheet date, and the amounts of revenues and expenses during the period then ended. Although made on the basis of discretion and judgment, these estimates could differ from actual results.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

**a. General**

As described above, the accompanying dollar financial statements constitute translation of the primary financial statements in adjusted NIS.

The Group companies maintain their accounts on a current basis in the local currency, in nominal terms (NIS, dollar, sterling etc.). The financial statements as of December 31, 2005 and 2004 in reported NIS and the financial statements for year ended in December 31, 2003 are presented in adjusted amounts on the basis of historical cost adjusted to the changes in the general purchasing power of the Israeli currency, based on the CPI of December 2003. The financial statements of investees active abroad translated in accordance with item 2b below.

**CPI and exchange rate data:**

	<b>December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
CPI (in points)	185.05	180.74	178.58
<u>In NIS:</u>			
US dollar	4.603	4.308	4.379
Pound sterling	7.9406	8.3075	7.8496
Hungarian forint	0.021492	0.023913	0.02088
Polish zlot	1.4111	1.4406	1.1707
Canadian dollar	3.9642	3.5787	3.4075
Euro	5.4465	5.8768	5.5331
Swiss franc	3.4985	3.8063	3.5518
Japanese yen	0.039211	0.042005	0.04096
 Rate of change in the year then ended (in %):			
CPI	2.39	1.21	(1.88)
US dollar	6.85	(1.62)	(7.56)
Pound sterling	(4.42)	5.83	2.83
Hungarian forint	(10.12)	14.53	(0.08)
Polish zlot	(2.05)	23.06	(5.122)
Canadian dollar	10.77	5.02	13.53
Euro	(7.32)	6.21	11.33
Swiss franc	(8.09)	7.16	3.87
Japanese yen	(6.65)	2.56	2.60

**b. Ceasing adjustment of financial statements and financial reporting in reported amounts**

1. Definitions:

**Adjusted amount** – a nominal, historical amount adjusted to the CPI of December 2003 and in accordance with Opinion No. 36 of the Institute of Certified Public Accountants in Israel.

**Reported amount** – an adjusted amount plus nominal values added and of net of any amounts deducted subsequent to December 31, 2003.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**b. Ceasing adjustment of financial statements and financial reporting in reported amounts (cont.)**

2. Accounting Standard No. 12 ("Ceasing the Adjustment of Financial Statements") went into effect on January 1, 2004, following which the Company discontinued, starting January 1, 2004, the adjustment of its financial statements based on the changes in the general purchasing power of the Israeli currency. Starting 2004 the Group's financial statements are prepared in reported amounts, with the comparative figures up to (and included) December 31, 2003 included in adjusted amounts.

The reported and/or adjusted amounts of non-monetary items reflect their cost in terms of reported amounts or amounts adjusted to the changes in the consumer-price index (CPI) until December 2003 while not necessarily reflecting these items' market value or value to the business.

**3. Method for determining the "reported amounts" in the 2005 and 2004 annual financial statements:**

a. Balance sheet:

- Monetary items (whose balance-sheet amount reflects current value or realizable value at the balance-sheet date) have been included at their nominal values at the financial statements date.
- Non-monetary items have been included at their adjusted amount plus nominal amounts added during the reported period and less nominal, historical amounts deducted during the reported period.
- Investments in investees and minority interest in subsidiaries have been included on the basis of these companies' reported financial statements.

b. Statement of operations:

- Income and expenses, including financing, have been included in nominal values.
- Income and expenses stemming from non-monetary items (mainly depreciation, amortization and inventory changes) have been computed concurrently with the computation of their corresponding balance-sheet amounts.
- The Company's equity in the results of investees and share of minority interest in results of subsidiaries has been determined on the basis of these companies' financial statements in reported amounts.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**b. Ceasing adjustment of financial statements and financial reporting in reported amounts (cont.)**

**3. Method for determining the “reported amounts” in 2005 and 2004 annual financial statements (cont.):**

**c. Translation of investees’ financial statements:**

The financial statements of investees acting autonomously abroad are translated into the Group’s reporting currency, as follows:

- Monetary as well as non-monetary assets and liabilities of the autonomous unit abroad have been translated by the closing exchange rate.
- Income and expenses of the autonomous unit abroad have been translated by the average exchange rate during the period.
- Any exchange-rate differences are classified as a separate item in shareholders’ equity until the net investment is realized.

**4. Method for determining the adjusted amounts in the financial statements of the year ended in December 31, 2003:**

**a. Statement of operations:**

- Income and expenses reflecting transactions, other than financing, have been adjusted by the changes in the CPI from payment/transaction date up to the month of December 2003, with the erosion of related monetary balances allocated to financing.
- Income and expenses stemming from non-monetary items (mainly depreciation, amortization and inventory changes) have been computed concurrently with the computation of their corresponding balance-sheet amounts.
- The Company’s equity and minority interest in results of investees have been determined on the basis of these companies’ adjusted financial statements.
- Real financing income and expense amounts reflect balance after having taken into account the erosion of monetary items during the year.
- The erosion of income-tax advances has been allocated to “income taxes”.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**b. Ceasing adjustment of financial statements and financial reporting in reported amounts (cont.)**

**4. Method for determining the adjusted amounts in the financial statements up to December 31, 2003 (cont.):**

**b. Translation of investees' financial statements:**

The financial statements of investees acting autonomously abroad have been translated into the representative exchange rates in effect on the balance-sheet date. Any differences between the Company's investment in investees based on the changes in the Israeli CPI up to the CPI of December 2003 as well as the translation based on the representative exchange rates on the balance-sheet date have been allocated to a separate item in the shareholders' equity ("translation adjustment of investees' financial statements").

Exchange-rate differences in respect of loans denominated in foreign currency used for financing investments in autonomous units abroad have also been allocated to "translation adjustment of investees' financial statements".

**c. Consolidated financial statements**

The consolidated financial statements include full consolidation of fully and proportionately consolidated subsidiaries based on the company's relative share in the joint ownership. Material balances and transactions of consolidated subsidiaries have been fully eliminated while these of proportionately consolidated subsidiaries have been eliminated proportionately.

The consolidated data is based on audited financial statements of subsidiaries included in consolidation following the adaptation of their accounting policy to that of the Company's.

The excess of the investment cost over net book value at acquisition is allocated to the acquired company's identified assets and liabilities based on their fair value. Unallocated excess cost not reflecting goodwill and presented in the consolidated balance sheet as "other assets" and amortized over the expected economic life not exceeding 20 years (see Note 2i in regard to Accounting Standard No. 20 of the Israeli Accounting Standards Board concerning goodwill amortization period).

**d. Cash and cash equivalents**

Includes demand deposits and unrestricted deposits for periods not exceeding three months.

**e. Marketable securities**

Marketable securities held as a "permanent investment", as defined in Opinion 44 of the Institute of Certified Public Accountants in Israel, are presented at cost while those held as a "current investment" which the management intend realize in the short term are presented at market values. Change in market value is included in financing in the statement of operations.

**f. Allowance for doubtful accounts**

The allowance for doubtful accounts is computed on specific debt, the collection of which, in the opinion of management, is in doubt.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**g. Investment in investees**

Investments in shares of investees which the company exercises significant influence are presented in the financial statements by the equity method, with the excess of investment cost over their net book value at acquisition not allocated to specific assets ("goodwill") amortized over the period during which the entity is bound to enjoy economic benefits from the goodwill, with the maximal amortization period not exceeding 20 years from its initial recognition date.

Foreign affiliates prepare their financial statements in accordance with international accounting standards.

**h. Other investment**

An investment in non-marketable rights in a Unit Trust in which the Company has no material influence is accounted for at cost, which - in management's opinion - is not lower than net realizable value.

**i. Fixed assets**

Fixed assets are stated at cost, net of accumulated depreciation. Depreciation is computed by the straight-line method at rates considered sufficient to fully depreciate the assets over their estimated useful lives.

**j. Yielding assets**

1. Yielding assets are stated at cost and depreciated by the straight-line method at rates considered sufficient to depreciate the assets over their estimated useful lives.
2. Self-constructed yielding assets are stated at cost, which includes the cost of land, development, materials, labor and other.
3. Leasehold improvements are depreciated over their estimated useful lives, with adjustments made for specific lessees are amortized over the related leasing periods.
4. Building operating systems are amortized over their expected useful lives.
5. Borrowing costs used for building construction (including the related land), as well as direct supervision and set-up expenses in the period preceding operation are allocated to the cost of the buildings. As for the capitalization of borrowing costs see item n.
6. Upon the acquisition of assets leased under existing leases, the Company allocates, whenever necessary, a value to the asset or liability in respect of the variance between the rental fees stipulated in the existing leases and the rental fees of that asset based on market prices at acquisition. The asset or liability recognized in respect of the above is allocated to operations over the relevant leasing period.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**k. Deferred income taxes**

The Company and the Group companies allocate taxes in respect of temporary differences between the value of assets and liabilities in the financial statements and their tax base and in respect of losses beyond the amounts of liabilities whose realization is expected to deferred income taxes. The deferred taxes are computed by the tax rates expected to prevail upon realization, as they are known on the balance-sheet date.

The computation of deferred taxes did not take into account the taxes that would have been applicable in case of the realization of the investments in investees since management intends to keep on holding. The computation also excludes deferred taxes in respect of dividend distribution since it is exempt from tax at some companies, and with respect to other companies it is management's policy not to distribute, in the foreseeable future, the retained earnings, in a manner imposing on the Group an additional, material tax liability

**l. Other assets**

Cost incurred with relation to achieving long-term lease, are capitalized, and amortized to operations over the lease period.

Whenever necessary, the Company assigns an assets a value that reflects the economic value of costs associated with commitments entered into with existing lessees at time of acquisition. This asset is amortized to operations over the remaining leasing periods of existing lessees.

Loan attainment expenses include commissions and related payments to professional advisers are capitalized as incurred, with subsequent amortization expenses allocated to operations during the period benefiting from these loans in relation to their outstanding balance.

Any gain or loss derived from early loan repayment (including the net book value of the original loan-attainment expenses and the expenses due to the early repayment) is allocated to operations at the early repayment date.

Debenture issuance expenses are amortized on the basis of outstanding balances.

**m. Revenue recognition**

Rental revenue is allocated to operations as the right of receipt is accrued over the term of the lease.

In yielding rental fees that rise gradually over the term of the lease, the effect of this gradual increase is equally allocated to operations over the period of the lease.

Management-fees income is allocated to operations over the period during which the related services are rendered.

Gains from realization of real estate and shares of companies holding real estate are recognized in the statement of operations upon the conclusion of the sales transaction and the transfer of the risks and benefits associated with ownership and reported as income.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**n. Borrowing costs**

The Company capitalizes its borrowing cost in accordance with standard No.3, Capitalization of Borrowing Costs, published by the Israeli Accounting Standards Board. According to this standard, specific as well as non-specific borrowing costs should be capitalized to qualified assets (assets under preparation or construction not yet used for its designated use and that the time required for their preparation or sales is considerable). Non-specific borrowing costs are capitalized to qualified assets or to a part of them that was not specifically financed by using a rate constituting a weighted average of the costs incurred in respect of the financing sources whose borrowing costs had not been specifically capitalized.

**o. Transactions with controlling parties:**

1. Loans with designated repayment dates attained from a controlling party are presented at their present value, computed by the interest in effect on the issuance date of the capital notes. If the gap between their par value and present value does not exceed 5%, the capital notes are presented at their par value with no adjustment made to the effective interest rate.
2. Assets acquired from a controlling party are presented in the financial statements at the seller's book value, with any difference between the transaction's proceeds and that book value allocated to a capital reserve.

**p. Impairment of assets**

The Company estimates at each balance sheet date the recoverable amount of its assets whenever there is any indication that these assets may possibly be impaired. If the carrying amount of an asset exceeds its recoverable amount, the Company recognizes an asset impairment loss. An impairment loss previously recognized for an asset, other than goodwill, should be reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of the asset after the reversal may not exceed the net book value of the asset that would have been determined had no impairment loss been recorded in prior years.

**q. Impairment in the value of an investment in an affiliate:**

Whenever there are any signs indicating that the value of its investments in affiliates may have been impaired, the Company examines at each balance-sheet date the recoverable value of these assets and, if the book value of the investment in affiliates exceeds its recoverable value, the Company recognizes a loss from impairment in the value of the investment. Such impairment is first allocated to goodwill and, subsequently, to the investment account. Any loss from impairment, other than goodwill included in the investment account, previously recognized, is eliminated only when a change takes place in the estimates used in the determination of the recoverable value, from the date on which the last impairment was recognized while examining the investment in its entirety.

**r. Earnings per share**

The basic earnings per share for a par-value NIS1.00 of ordinary shares are computed in accordance with Opinion No.55 of the Institute of Certified Public Accountants in Israel on the basis of the weighted average of the outstanding share capital during the year. The computation of basic EPS included the shares expected to stem from the exercise of options and it was retroactively adjusted for the distribution of bonus shares.

In addition to the EPS data per NIS 1.00 par value, the Company has included EPS data.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**s. New accounting standards and their impact**

**Standard No. 19 - Income Taxes**

The standard went into effect on January 1, 2005.

This Standard, published by the IASB in July 2004, establishes rules for recognizing, measuring, presenting and disclosing income taxes in the financial statements. The effect of the standard on the Company's financial statements was not expected to be material.

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

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

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

The Company believes that the effect of this standard on the Company's financial statements is not expected to be material.

**Accounting Standard No.24 - Stock-Based Payment**

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

As for stock-based transactions cleared by equity instruments, the standard requires the measurement of merchandise and/or services received as well as the parallel increase in shareholders' equity, directly, based on their fair value, unless it is not possible to reliably estimate their fair value. In this case, it is necessary to measure the fair value and the parallel increase in shareholders' equity, indirectly, in relation to the fair value of the granted equity instruments. As for transactions with employees and others providing similar services - the standard requires to measure the fair value of the equity instruments at time of grant. The new standard will be implemented for reporting periods starting January 1, 2006 but early implementation is recommended.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**s. New accounting standards and their impact (cont.)**

**Accounting Standard No.24 - Stock-Based Payment (cont.)**

The transitional provisions relating to stock-based transactions that are settled by equity instruments state that this standard should be implemented for all grants taking place subsequent to March 15, 2005 and not yet vested by January 1, 2006. Since the standard was implemented for periods beginning on January 1, 2006, the 2005 annual financial statements will not include expenses incurred subsequent to March 15, 2005 but they will be restated in the 2006 annual financial statements in order to include the expenses relating to this period. The Company is examining the new standard and expects it to require the recording of expenses by the Company and a subsidiary over the employee debentures' vesting period of \$1.2m, before the tax effect, during 2006-2010.

**Accounting Standard No.21 - Earnings per Share**

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

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

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

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

In accordance with the Standard's guidance, the Standard will apply to financial statements for periods starting January 1, 2006 and thereafter. The Standard further establishes that its guidance is to be applied retroactively in respect of comparative earnings per share data relating to prior periods.

The Company is examining the standard yet unable to assess its impact at this stage.

**Standard No.25 - Revenues**

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

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

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

Assets and liabilities included in the balance sheet on December 31, 2005 in amounts different than those recognized before this standard's implementation will be adjusted on January 1,2006 to the amounts recognized based on this standard, with the effect of this adjustment recognized as a cumulative effect of an accounting change.

The Company believes that the effect of the new standard on the Company's financial position, results of operations and cash flows is not expected to be material

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**s. New accounting standards and their impact (cont.)**

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

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

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

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

Comparative figures for prior years covering periods before the Effective Date should not be restated and, starting on the Effective Date, the positive goodwill presented in the balance sheet on December 31, 2005 will no longer be amortized, including the one presented in the investment account of an affiliate. Subsequently, the company should periodically examine the goodwill's net book value, as noted in item b above. The balance of the negative goodwill presented in the balance sheet on December 31, 2005 will be fully written off on the Effective Date and directly be allocated to the opening balance of retained earnings at that time. Moreover, starting the Effective Date, the company should discontinue the amortization of its intangible assets having undefined useful life arising from the acquisition of an investee included in the 2005 annual financial statements, to be followed by future periodic examinations of their value, as noted above.

The Company believes that the effect of the new standard on the Company's financial position, results of operations and cash flows is not expected to be material

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

**DETAILS OF ACTIVE INVESTEES  
AT DECEMBER 31, 2005**

<b>Name</b>	<b>Business activity</b>	<b>Company's percentage of ownership at the Balance-sheet date</b>
Toren Development and Property Company (1989) Ltd.	Operating and renting of office and commercial building	62%
Electra Property Management (1997) Limited.	Property management	100%
Rony-Du Investments Inc.	Operating and renting of office and commercial building	25%
Ziviel Limited.	Operating and renting of office and commercial building	49%
Elect-car Properties Limited.	Operating and renting of office and commercial building	100%
• A.B.C (Yad-Eliyahu) Parkings Management Limited	Operating of parking spaces.	50%
Oranim Partnership	Initiation and construction of yielding assets	50%
Kreo partnership	Initiation and construction of yielding assets	33%
Harakevet partnership	Initiation and construction of yielding assets	33%
Bellingen Limited	Management, financing consultation and investments	100%
Bindon Properties Limited	Holding of rental properties in Britain	75%
• Shadow Lake Limited	Holding of rental properties in Britain	49%
• Telford Properties Limited	Holding of rental properties in Britain	75%
• Betland Limited	Holding of rental properties in Britain	100%
• Palis Limited	Holding of rental properties in Britain	75%
• Hanworth Limited	Holding of rental properties in Britain	100%
• Brooklyn Bridge Properties Limited	Holding of rental properties in Britain	75%
• Rivera Limited	Holding of rental properties in Britain	75%

<b>Name</b>	<b>Business activity</b>	<b>Company's percentage of ownership at the Balance-sheet date</b>
Electech Real Estate B.V.	Management, financing consultation and investments	100%
• Ganel Holding B.V.	Holding company	50%
• Ganel Real Estate B.V.	Holding company	85%
• Ganel Luxemburg	Holding company	100%
• Elrogan kft Hungary	Initiation, construction, operating and renting of logistic center	100%
• Elgan France	Initiation, construction, operating and renting of logistic center	100%
• Catalina Investments Sp.Z.O.O	Initiation, construction and marketing of office and residence buildings	33%
• Electec Real Estate Inc.	Management, financing consultation and investments	100%
• Hopkins plaza financial associates LLC	Holding of rental properties in United States	63%
• East Baltimore financial associates LLC	Holding of rental properties in United States	72%
• RFD 90 TH & FIRST LLC	Holding of residence buildings earmarked for conversion to Condominium	42.5%
• Cleveland Financial Associates, LLC	Holding of rental properties in United States	44.4%
• State house financial Associates LLC	Holding of rental properties in United States	44.5%
• St. Louis Financial Associates LLC	Holding of rental properties in United States	49%
• Electech Real Estate Gibraltar	Beneficiary of trusts	100%
• Gibraltar Trusts-Canada	Operating and renting of rental properties in Canada	90-100%
• Gateway Centre Co-ownership	Operating and renting of rental properties in Canada	49%
Electech Holding Luxemburg	Management and holding company	100%
• Electech Holding Hungary	Financing of investments	100%

<b>Name</b>	<b>Business activity</b>	<b>Company's percentage of ownership at the Balance-sheet date</b>
Langworth Limited	Holding company	42.6%
• Sandstone Real Estate GMBH	Holding and management of rental properties	100%
• M.S.C. OBJEKT BERLIN GMBH	Holding of rental properties in Germany	94%
• M.S.C. OBJEKT DUSSELDORF GMBH	Holding of rental properties in Germany	94%
• M.S.C. OBJEKT HAMBURG GMBH	Holding of rental properties in Germany	94%
• M.S.C. OBJEKT KARLSRUHE GMBH	Holding of rental properties in Germany	94%
• M.S.C. OBJEKT KOLN ZWEI GMBH	Holding of rental properties in Germany	94%
• M.S.C. OBJEKT LANDSHUT GMBH	Holding of rental properties in Germany	94%
• M.S.C. OBJEKT MUNSTER ZWEI GMBH	Holding of rental properties in Germany	94%
Durango Real Estate GMBH	Holding and management of rental properties in Germany	75%
Morey Holding GMBH	Holding and management of rental properties in Germany	50%
• Jersey Unit Trust	Holding and management of hotels in Britain	9.9%