

ELECTRA REAL ESTATE LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2009

(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, 2009**

The Board of Directors of Electra Real Estate Ltd. is pleased to submit herewith the financial statements of the Company and its subsidiaries (hereinafter - "the Company") for the period ended December 31, 2009. (Hereinafter - "Report period")

A. The Company and its Business Environment

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

Within the framework of its activity, the Group focuses on the acquisition, leasing, set up, improvement and sale of yielding commercial real estate. As of the date of the financial statements the Group holds, in Israel and abroad, 105 assets including 95 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	11	6 Yielding assets and 5 assets under construction
Britain	4 58	Yielding assets Hotels (Company's share- 9.9%)
Canada	15	Yielding assets
USA	10	9 Yielding assets and 1 asset that is being earmarked for conversion and sale as condo units
Germany	46	Yielding assets
Switzerland	4	Yielding assets
Holland	8	Yielding assets
Belgium	1	Yielding asset
Luxemburg	1	Yielding asset
India	5	Assets under development

The Company's in the aggregate area of the rental properties (including the Company's share in the assets of affiliates) is 1,100,000 sq. meter, with another 460,000 sq. meters. Of parking space.

The average occupancy rate of all the rental properties as for the date of the report is approximately 93.5%.

Economic environment changes

In 2008 major changes occurred in the financial markets, which has been reflected, inter alia, in the collapse of international financial entities, in the nationalization of banks around the world, in incisive fluctuations in securities value in the stock exchanges all over the world and in a severe credit crisis. Following this crisis significant steps were taken in USA and other countries in the world to moderate the crisis and to improve the markets state, inter alia, through lowering the interest rate trying to energize the economy and the credit market. Alongside this crisis, other events have occurred in the Israeli market, which have an impact on the activities of companies in Israel, among other things, significant fluctuations in the exchange rates of major currencies against the Israeli shekel and an increase in inflation rates in the domestic market.

In 2009 there were evidence for positive stabilization in the financial area and in the financial markets, and it seemed that the peak of the global financial crisis has passed, but there are still risks that may affect the market situation, so at this point the company does not have the ability to assess the implications of the financial crisis that still exists in Israel and abroad, how and how much it will develop, and how it would impact the operating results and the business opportunities available to the Company for the purchase and sale of real estate assets and of credit achievement costs or credit sources availability.

During the report period the global economic crisis did not have a significant impact on the Company's results from its operating activities. However the yields which the real estate transactions takes place in the countries where the company operates increased compared to the yields in the end of 2008, which caused decline in the value of the real estate assets in these countries. As a result the company recorded reduction in the fair value of its assets and investments during the reporting period. This reduction has on effect on the company's cash flow from its operating activities, and has no effect on the company's operating activities from its existing assets.

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

The Company estimates that, if, and as long as, the global crisis deepens and the implications on the domestic market increase, the company's cash flows, financial position and financial stability will enable the Company to withstand the implications of the crisis and finance its activity and meet its liabilities.

In these circumstances, according to the Company's assessment, the Company's assessment is prospective information, for which there is no certainty that it will materialize. The Company's assessment is based on Company's past experience, its familiarity with the markets in which it operates and the credit provision policy of financial institutions and the analysis of general information, available to it as of the date of preparation of this report, including public journal, surveys and studies, whose accuracy and completeness has not been independently examined by the Company. The materialization of the Company's assessment, as aforesaid, is not certain, since it is not subject to external influences which cannot be estimated in advance and that are not under its control, including the risk factors characterizing the Company's activity, the worsening of the economic crisis, changes in the currency exchange rate, the tightening of conditions for raising external sources of finance, a deterioration in the trade and economic conditions for the realization of business opportunities for the purchase and sale of real estate properties, etc. The Company will continue to monitor the financial crisis in world markets in the Company's area of operations.

For the implications of the economic situation and events in the capital markets on the Company's financial position, its operating results, the Company's sources of finance and liquidity, as of the date of this report, see below.

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

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



Activity in Israel

The Company holds five office buildings and one office floor in different locations in Israel held at various rates ranging from 33% to 100%. The assets are leased to various tenants for different periods expiring till 2022. In addition, the Company holds five assets under different stages of development and construction.

Transactions during the period:

- May 2009 - The Company sold an office floor in Haifa.
- June 2009 - In continuation of the document of principles that was signed on February 22, 2009 and which was updated on May 18, 2009, between the company and Amot Investments Ltd.(hereinafter – Amot), Electra Real Estate has sold its entire rights in proportionately consolidated companies to Amot, as described below:
 - (1) 49% of the shares in the company Zival Investments Ltd.
 - (2) 50% of the shares in the company Roni Do Investments Ltd.

The cash flows (pre-tax) as the result of the disposal of the rights, as aforesaid, amount to \$ 16.8 million. Electra Real Estate did not record a significant profit as the result

Of this sale since most of the gain was recorded in the previous period within the framework of the adjustment of the fair value of the assets that were sold.

- September 2009- In the framework of splitting the real estate's activities from Electra LTD, an asset at Ramat Ha-Haiall in Tell-Aviv, was transferred addition with all of it's obligations from Electra LTD, to the company. The asset whose value at the date of the transfer (September 30, 2009) is approximately \$ 23.8 million and has been partly financed by a long term loan which was received from the bank amounting to \$ 19.5 million and the loan has been transferred to the company from Electra LTD, and by another long term loan received from Electra LTD amounting to \$ 4.3 million.
- October 2009- The Company implemented all of her rights in an asset in Israel, BVR building at Rosh Haayin. The cash flow derived from the sale is \$ 5.6 million. The results from the realization of this sale were not material, since most of the profit was recognized in previous periods under the fair value adjustment of the sold asset.

Transactions after the reporting period:

- March 2010 – the company announced that it is in advanced negotiations to sell its holdings in the Elco Tower project in Tel – Aviv to the Ampa REIT Fund (hereinafter – "the Fund"). The transaction is subject to the approval of the appropriate persons in the company, and is subject to the completeness of all the legal and commercial needed consents, and is subject to signing an agreement which will be subject to the suspension term of issuance the fund shares in the Tel Aviv Stock Exchange Ltd. Until May 30, 2010 or until a later date which the parties will agree to in writing.

Foreign activity

Electech Real Estate B.V (Hereinafter: "Electech")

Electech, a Dutch foreign company, wholly owned by the company, coordinates, supervises and manages most of the Company's activity outside Israel. Electech's activity is conducted through foreign companies and partnerships. (For additional details on the shareholding structure of the Company, see paragraph 1.11 in the Report of the Business Description of the Company as of December 31, 2009).

As of December 31, 2009, Electech operates in the United States, Germany, Holland, Switzerland, Belgium, Canada, Luxembourg and India.

Britain

As of the balance-sheet date the Company hold at percentages ranging from 75% to 100%, through investees abroad, four commercial buildings in Britain, leased for periods expiring between 2014 and 2020. The company also holds through foreign investees 9.9% of 16 hotels throughout Britain, managed by Hilton and 9.9% of 42 hotels throughout Britain managed by Marriott.

The management agreements are periods of 30 years, ending 2035 and 2037, respectively.

- After the reporting period in February 2010 – a foreign subsidiary of the company which holds in 75% percent of an asset in London UK, signed a binding agreement to sell its holdings in the asset. The sold asset serves as an office building in total area (100%) of 2,400 Square meters, which is fully leased to the London Police. The property selling price (100%) is approximately £ 17.125 million (approximately \$ 26.5 million), which represents yield of approximately 5% on the existing rent. The company does not expect to record any profit from the realization of the asset beyond the recorded aggregate net profit in its financial statements in previous periods under the fair value adjustments section. Total gross cash flow (100%) resulting from the sale of the property, before taxes and after the repayment of the loan and the transaction costs, is approximately £ 4.8 million (approximately \$ 7.4 million), and the subsidiaries share is approximately £ 3.6 million (approximately \$ 5.6 million). The business transaction is expected to be completed by the end of March 2010.

Canada

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in 15 office buildings in Canada, at various rates ranging from 55% to 100% in lease contracts for periods which ends between 2010 and 2022.

Transactions during the period:

- In May 2009, a foreign corporation of the company which holds a real estate asset in a rate of 91%, came to an agreement with a foreign financial institution abroad which places at the time of the asset's acquisition (In 2004) a loan for financing the asset, for the extension of the settlement date from July 2009 to January 2010. The total sum of the loan (100%) as of the reporting date is approximately 21.1 million Canadian Dollars (approximately \$ 20.2 million). After the balance sheet date the loan was extended for an additional period up to July 2010. The corporation is working for paying this loan in a way of refinancing. For additional details see hereinafter section "Forecast cash flows for financing the repayment of the Company's liabilities".
- In December 2009, the company realized its full holdings in an asset in Montreal, Canada for approximately 28.5 million Canadian Dollars (approximately \$ 26.8 million). Total cash flow (before tax) resulting to the company is approximately 9.2 million Canadian Dollars (approximately \$ 8.7 million).

USA

As of the balance sheet date, Electech holds a wholly owned foreign subsidiary, Electech Real Estate Inc. (hereinafter: "Electech Inc"), foreign corporations (LLC) which own the rights to 10 office buildings in the United States, one of which are held at a rate of 60% in lease contracts for periods which ends between 2010 and 2031 and 9 assets at rates ranging between 40% - 49% through companies that accounted by the equity method (Including one asset that is being earmarked for conversion and sale as condo units).

In addition, the company holds 20% of the Harbor Group International LLC ("HGI") in the USA which is engaged in the purchase, improvement, management and sale of rental property, mainly in the United States.

Transactions during the period:

- March 2009 – Electech Inc came to an agreement with HGI shareholders in which she will decrease in her holding percentage in HGI from 25% to 20%, in exchange to decreasing HGI shareholders' compensation amounted to \$ 4.875 million which supposed to be paid in July 2009. In addition, it was set, that Electech Inc has the option for a period of five years starting September 1, 2009, to raise its holding percentage in HGI to 25% in exchange to the payment which was decreased in the amount of \$ 4.875 million.
- March 2009 – Electech Inc sold 11% of her rights in a partnership which holds an office building in Chicago, USA. After the sale the company's holding percentage in this partnership is 49%. Starting from the company's balance sheet as of March 31, 2009, the rights in the partnership is classified as investments in investee companies compared with previous periods in which the asset was proportionally consolidated. The profit derived to the company in the report period from the rights' sale as aforesaid is non-material.

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

At the balance-sheet date, through its foreign subsidiaries Electech holds rights in 60 buildings in Germany, Holland, Switzerland, Belgium and Luxembourg of which, 42 buildings at a shareholding rate of between 50% and 100% in rental contracts ending in the years 2010-2033, and additional 18 properties held through affiliates at rate of 42.5%- 70%.

Transactions during the period:

- January 2009 – Electech acquired 45% of companies which hold 2 shopping centers in Hornbach, Holland and acquired a shopping center in Luxembourg (in addition to four shopping centers which she is already owns) in accordance to a framework agreement signed in 2006. For additional details see note 10b (6) (e) in Company's financial statements as of December 31, 2009.
- February 2009 – Electech acquired through a subsidiary a part of a loan granted to a foreign subsidiary (70%) of Electech from a foreign financial institute to buy assets in Germany and in Holland in May 2007. The book value of the repaid loan (100%) is € 7 million (approximately \$ 10.3 million) against actual payment of (100%) € 4.2 million (approximately \$ 6.2 million). Regarding this acquisition the company included in the report period a profit before tax from the loan early repayment amounted to € 2 million (approximately \$ 2.9 million) in the "financial income" section in the statement of operation.
- June 2009 - In June 2009 Elechtech sold its rights (50%) in a company which holds an asset in Genève Switzerland. The net cash flows generated from the sale of such rights to the foreign subsidiary amounted to 5.3 million Sfr (approximately \$ 5.1 million). The aggregate profit from the increase in value of the asset until the sale (since the date of inception) was recognized in previous periods. During the reporting period the company has recorded a loss amounting to \$ 1.5 million attributed mainly to selling costs and fair value adjustment in order to reflect the selling price of the asset and the selling expenses that accompanied the sale of the property.
- September 2009 – Electech (hereinafter -"the subsidiary") has become attached in a new management agreement with the local partner of the subsidiary company, for the giving of rights (as following detailed) in five companies which are holding assets in Germany and in Holland, which their value as of September 30, 2009 is approximately \$ 261.5 million. According to the new management agreement, the management rights were transferred to the authority of the local partner. These rights among others, includes: exclusivity in negotiating with tenants and renting additional areas in the assets, negotiating and making regarding the financing of the assets, appointing managers and functionaries in the companies, and managing in continuously and daily management of the assets. The agreement is for 3 years unless it will be terminated before, by the terms specified in it. The new management agreement was made to improve the managing, operating and financing of the assets. As of December 31, 2009 the investment in companies which are holding the assets, is included in section "investments in affiliates" according to equity method. As of the balance sheet date the company erased its full investment in these holding asset companies. For additional details see note 13.c.c (1).c in the company's consolidated financial statements as of December 31, 2009.

India

As of the balance sheet date, Electech, through foreign subsidiaries, holds 5 lands with share holding percentages ranging from 40.8% to 44.1%. The lands are private and are located in the cities of Hyderabad, Maisur and Chennai in India. The lands are intended for the construction of housing, commercial and office projects.

As of December 31, 2009 the company has not started construction in these lands, except in the residence project in the city of Hyderabad, which is in its initial stage, in the extent of approximately 370 housing units.

For additional details about Electech's investments in India see chapter 8.4 in the Report of the Business Description of the Company as of December 31, 2009.

B. Financial Position

Total assets as of the balance sheet date amounted to \$2,238 million, compared with \$2,555 million at the end of 2008. The decrease in the volume of the assets and liabilities of the company as of the balance sheet date, results mainly from the sale of assets in the reporting period, and from assets which are classified as investments in affiliates whereas at the end of 2008, these assets were classified under " jointly controlled investment " (for additional details see above in section: transactions in Europe and in the USA). This decline was offset in part due to the strengthening of the exchange rates against the shekel during the reporting period as follows.

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

Currency	Rate Change (in %):
US Dollar	-0.7%
Euro	+ 2.7%
Pound Sterling	+ 10.1%
Swiss Franc	+ 2.8%
Canadian Dollar	+ 15.7%

Current assets

Total current assets as of the balance sheet date amounted to US\$ 194 million, compared with US\$ 104.1 million as of the end of 2008.

Most of the increase in current assets is primarily attributable to the increase in the company's cash balances resulting from the Public Offering of bonds (Series C), made by the company in December, 2009 (for additional details see section D'3 hereinafter "Events during the reporting periods", and from the classification of residential apartments inventory from non current assets section to the current assets section.

Non current assets

Non current assets as of the balance sheet date amounted to US\$ 231 million as compared with US\$ 263 million on December 31, 2008.

The increase in the non-current assets is primarily attributable to the classification of the residential apartment's inventory to the current assets section, as detailed above, and from the impairment in equity investments instruments due to fair value adjustments.

Yielding assets

Total yielding assets as of the balance sheet date amounted to US\$ 1,803 million as compared with US\$ 2,188 million on December 31, 2008.

The decrease in the volume of the company's yielding assets in the reporting period is primarily attributable to the selling of assets in the reporting period, and from assets which are classified as investments in affiliates whereas at the end of 2008, these assets were classified under "jointly controlled investment ". This decline was offset in part due to the strengthening of the exchange rates against the shekel during the reporting period as follows.

The Company's share in the yielding assets (respectively to its holding portion in each company) of its affiliates as of the balance sheet date totals US\$ 683 million.

Current liabilities

Total current liabilities as of the balance sheet date amounted to US\$ 261 million as compared with US\$ 240 million on December 31, 2008.

The increase is primarily attributable to the classification of advanced payment received from apartment purchaser in Israel, from the non current liabilities section to the current liabilities section. For additional details on the company's assumptions of repayment its current liabilities see hereinafter section "Forecast cash flows for financing the repayment of the Company's liabilities".

Non current liabilities

Non current liabilities (including long-term loans obtained to finance the acquisition of yielding assets) on the balance-sheet date amounted to US\$ 1,690 million as compared with US\$ 1,996 million on December 31, 2008.

The decrease in the liabilities is mainly attributed to selling of assets during the reporting periods, and the repayment of liabilities in respect of these assets, and from the long term liabilities of assets held by companies which during the reported period were exited from consolidation as detailed above. As of the balance sheet date the bank loans, which amounted to US\$ 1,319 million, constituted Non-Recourse loans.

The Company's share in the bank loans (respectively to its holding portion in each company) of its affiliates as of the balance sheet date totals US\$ 614 million. These loans are non-recourse.

Shareholders' equity

The Company's shareholders' equity at the balance sheet date was US\$ 276 million compared with US\$ 319 million at the end of 2008.

The change in the equity is primarily attributable to the loss for the period amounts to approximately US\$ 43 million, which is primarily attributable to adjustments to fair value of real estate made by the company in subsidiaries (including affiliated companies), and from the impairment of investments in equity instruments in the sum of approximately US\$ 18 million which was offset in part due to the strengthening of the exchange rates in the amount of approximately US\$ 19 million.

These adjustments have no affect on the company's cash flow and have no effect on the company's operating activity from its existing assets.

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

C. Results of operations

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

	2009				2008
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4
Rental fees, management fees and others	46,399	47,273	47,126	49,529	50,243
Revenue cost	15,461	14,075	14,574	15,546	15,589
Gross Profit	30,938	33,198	32,552	33,983	34,654
Adjustment of fair value, results of disposal of yielding properties and others, net	(45,117)	(3,064)	(3,719)	(1,313)	(34,952)
Company's share in results of affiliates, net	(23,910)	10	(660)	(456)	(9,425)
General and administrative expenses	(2,524)	(1,946)	(1,743)	(2,335)	(429)
Revaluation of liabilities in respect of index-linked options	-	-	28	6	397
Total costs and expenses	(71,551)	(5,000)	(6,094)	(4,098)	(44,409)
Operating profit (loss)	(40,613)	28,198	26,458	29,885	(9,755)
Financing expenses, net	19,926	26,302	26,404	24,519	24,299
Pre-tax income (loss)	(60,539)	1,896	54	5,366	(34,054)
Tax Expenses (Tax Benefit)	(12,626)	1,478	(157)	1,371	2,147
Net income (loss) for the period	(47,913)	418	211	3,995	(36,201)
Attributable to:					
The Company's shareholders	(48,491)	473	227	3,896	(36,084)
Minority interest	578	(55)	(16)	99	(117)
Net income (loss) for the period	(47,913)	418	211	3,995	(36,201)

Revenues

Total revenues of the Company from rental fees, management fees and others as of December 31, 2009 (hereinafter: "the reporting period") amounted to \$ 190.2 million compared with \$ 207.2 million in the corresponding period last year.

Most of the decrease attributed to selling of assets in the reporting period as detailed above in the section regarding the activity in Israel and abroad, and from rent revenues from assets which during 2009 has existed from consolidation and since that time, the revenues resulting from these assets are shown as part of the company's results from affiliates

Financing expenses, net

During the reporting period, the net financing expenses (including revaluation of CPI linked options) amounted to approximately \$ 97.2 million as compared with approximately \$ 108.8 million for the parallel period last year. The decline in expenses results from the sale of properties in Israel and abroad during the reporting period and the repayment of relevant loans. Also, during the reporting period, the "known" Israeli CPI rose at the rate of approximately 3.8% against an increase of approximately 4.5% in the same period last year, which affected the CPI linked liabilities in Israel, as well as the fact that for part of the loans (loans at variable interest), the interest rate during the reporting period was lower than the parallel period last year. The financing expenses for the reporting period include the amount of approximately \$ 72.6 million with respect to liabilities taken from financial institutions abroad for the financing of the acquisition of income

producing properties abroad, which are secured by a fixed lien on the buildings. These liabilities are without recourse to the Company.

Taxes on income

During the reporting period, the Company recorded income from a tax benefit in the amount of approximately \$ 21.5 million due to the impairment of income producing properties. Of the benefit, the amount of approximately \$ 12.5 million was included in the income taxes section and the amount of approximately \$ 9 million was included with the item Company's share of earnings (losses) of affiliated companies, net. See Note 27C and 27 E(1) to the Company's consolidated financial statements as of December 31, 2009.

Net income (loss)

The loss of the Company for the reporting period totaled approximately \$ 43.2 million as compared to a loss of approximately \$ 19.3 million million for the same period last year.

The loss was derived mostly from adjustments to fair value of investment property made by the Company in investee companies, which amounted to a total net write down of approximately \$ 65.4 million. These adjustments had no effect on the Company's cash flows and on its current operations from the existing properties.

Cash flows

Cash flows from current operations

During the reporting period, the Company derived cash flows from current operations in the amount of approximately \$ 23.6 million as compared with the amount of approximately \$ 24.4 million in the comparative period last year.

Cash flows from investment activities and from financing activities

During the reporting period, the Company did not execute material investments in real estate and, therefore, the amounts of net cash flows from investment and financing activities are not material. The cash flows that resulted to the Company in the reporting period from the sale of income producing properties and the proceeds from the sale of companies consolidated under proportionate consolidation method totaled approximately \$ 56.4 million as compared with the amount of approximately \$ 50.9 million in the parallel period last year.

Forecasted cash flows for the financing of the excess of current liabilities of the Company over current assets

As of the balance sheet date, the Group has an excess of current liabilities over current assets in the amount of approximately \$ 67 million. The following is a description of the main actions being taken by the Company to reduce this excess:

A. Liabilities to foreign financial institutions

- The Company anticipates repaying loans (of the non recourse type) to foreign financial institutions in the amount of approximately \$ 71.8 million, out of which approximately \$ 59.3 million is for loans taken to finance properties in Canada and approximately \$ 12.8 million for loans to finance property in Switzerland. The fair value of the properties which the loans financed, as of the reporting date, is approximately \$ 123 million, with the value of the Canadian properties totaling about \$ 103.4 million and the value of the property in Switzerland approximately \$ 19.4 million. The Company is acting to repay these loans by means of refinancing. As of the date of publication of the report, negotiations are ongoing with a number of foreign financial entities for the receipt of new loans which will repay the existing loans and/or for

prolonging the existing loans. As of December 31, 2009, these loans are classified as current liabilities, the properties being classified in the non current section (income producing properties).

B. Liabilities to financial institutions in Israel

- The Group has short term credit in the amount of approximately \$ 15 million, secured by a fixed lien on income producing property in Israel.
- In December 2009, the Company reached an understanding with two financial institutions in Israel for the extension of the repayment dates of loans in a total financial volume of approximately \$ 52 million from the year 2010 to the month of January 2011. (These loans are classified in the financial statements as long term liabilities, in the September 30, 2009 report they were classified as short term liabilities).
- In March 2010, the Company reached an understanding with one of the aforementioned financial institutions with respect to an additional extension of loans in a financial volume of approximately \$ 22 million from the month of January 2011 to the month of January 2012.
- The Company will repay part of the loans from its own sources and is acting to extend the repayment terms of the balance of the loans.

C. Unutilized credit lines

As of December 31, 2009, the Company has unutilized long term credit lines in the amount of approximately \$ 41.6 million.

D. Realization of properties and investments

- During the reporting period, the Company sold its rights in a number of properties in Israel and abroad. The cash flows derived by the Company (gross, pre-tax), after deducting loans and obligations with respect to the properties, was approximately \$ 56.4 million.
- Subsequent to the reporting period, the Company signed an agreement concerning the sale of its holdings in property in Great Britain. The transaction is expected to close at the end of March 2010. The cash flows to be derived to the Company as the result of the sale of the property is approximately \$ 5.6 million.
- The Company intends to act to realize a number of additional properties during the years 2010 and 2011, both abroad and in Israel, with the realization proceeds, after deducting loans taken to acquire them, leading to an increase in the cash balances of the Company and enhancing the Company's working capital.

E. Current cash flows

- The Company has additional current maturities with respect to loans (of the non recourse type) which were received for properties abroad in the amount of approximately \$ 17.2 million, expected to be repaid from the current cash flows from those properties.
- During 2009, the Company had positive cash flows from current operations in the amount of approximately \$ 23.6 million.

F. General- debentures

- As of the balance sheet date, the Company has liabilities to debenture holders in a total amount of approximately \$ 136.3 million.
- Out of these liabilities to debenture holders, the amount of approximately \$ 1.6 million is to be repaid in April 2010, the amount of approximately \$ 16.7 million in the month of August 2010 and the amount of

approximately \$ 1.6 million million in October 2010. The balance of approximately \$ 116.4 million will be repaid commencing from the year 2011 through April 2019.

- In December 2009, the Company issued to the public NIS 144,919,000 par value of debentures (Series C). The proceeds from the issuance totaled the amount of approximately \$ 38.38 million (gross).
- In January 2010, the Company issued an additional NIS 55,081,000 par value of debentures (Series C), the debentures were issued at identical terms to those outstanding as mentioned above. The proceeds from the issuance amounted to approximately \$ 14.8 million (gross). The total par value of the debentures (Series C) held by the public as of the date of publication of this report is NIS 200,000,000 par value and the proceeds derived by the Company from them is approximately \$ 53.2 million.
- See below "events during the reporting period" and "events subsequent to the reporting period" for more details.

G. General- non recourse liabilities

- As of the balance sheet date, the Company's balance of non recourse liabilities was approximately \$ 1,319 million.

In noting the range of possible sources at the Company's disposal, the Board of Directors of the Company believes that, as of the approval date of the financial statements, the Company has adequate financial resources for repaying its current liabilities, and that there is no liquidity problem in the company.

Even so, as of the date of this report, the Board of Directors assesses that the Company has adequate financial sources to repay its current liabilities, this assessment and the Company's assessment, as mentioned in note 1(B) in the financial statements as of December 31, 2009, in relation to the forecasted cash flows, for the refinancing of loans, for the sale of the assets and the current cash flow is prospective information, which is based on the Company's assumptions and various assessments that it has made, and on the basis of the data at its disposal as of the date of this report. However, this information may not materialize or may turn out differently from that expected, since the Company is subject to external influences that cannot be estimated in advance and is not under its control, including the risk factors characterizing the Company's activity, the worsening of the econ crisis, changes in currency exchange rates, the tightening of the conditions for raising external sources of finance and a deterioration in the trade and economic conditions for the realization of business opportunities which needed for the purchase and sale of real estate assets, etc.

F.F.O (FUNDS FROM OPERATIONS)

The F.F.O is an acceptable index in United States, Canada and Europe which it is not required under the financial accounting standard, for giving more information on the operational results of yield real estate companies, which provides a proper basis for comparison between yield real estate companies. The F.F.O, by definition, expresses net income (calculated according to financial accounting standard), excluding profits (of losses) due to selling yield assets, plus depreciation and reduction (for real estate).

The company published the F.F.O results similar to a position paper published by the – NAREIT – the "REIT" company organization in the U.S. The company believes that subject and in addition to her financial statement, the F.F.O properly reflects an aspect of the company's operational results, and enables to establish a foundation for the comparison between the company's operational results for a specific period to previous and between the company's operational results to other real estate company's operational results. The total F.F.O derived for the company in the reporting period of the year 2009 amounted to approximately \$ 24.6 million compared to a total of \$ 23.8 million in the equivalent period last year.

It should be emphasized that the F.F.O:

1. Does not represent cash flows from continuous operation according to acceptable accounting standard.
2. Does not reflect cash existing for financing all the group's cash flows, including the ability to carry out distribution of funds.
3. Shouldn't be considered as a substitute for net profit for the purpose of evaluating the group's operational results.
4. Is not an audited item of data.

Hereinafter the calculation of the F.F.O for the reporting periods as follows:

	Year ended December 31,	
	2009	2008
Loss attributed to the company's shareholders	<u>(43,895)</u>	<u>(19,310)</u>
adjustments to the loss:		
Fair value adjustments, Implementation of yield assets and others, net	53,213	38,032
Depreciation And reduction	2,106	572
Profit due to bonds and loans retirement before maturity	(2,747)	(14,834)
Adjustments due to revaluation of investments in affiliates	33,956	10,464
Revaluation of Derivatives and liabilities indexation base	(34)	(3,289)
Deferred taxes and taxes due to fair value adjustments, results from the realization of yielding assets and others, net	(21,631)	4,218
Accrued linkage and exchange rates	3,448	5,693
Other adjustments	<u>241</u>	<u>2,319</u>
total adjustments for net profit (loss)	<u>68,552</u>	<u>43,175</u>
F.F.O	<u><u>24,657</u></u>	<u><u>23,865</u></u>

D. Events during the report period

1. The change in the holdings structure arrangement

1.1. Further to the announcement of the company's controlling shareholder, Electra Ltd (hereinafter: "Electra") on February 13, 2007 with regard to the examination of the process of structural change of the company through a split and merger, the Audit Committee and the Board of Directors of the Company approved On September 24, 2008, a change in the holding structure in the Company, whereby the "side" of the activity of the Company and a rental property belonging to the parent company, Electra, will be transferred, such that if the process is completed, the Company will be converted from a consolidated subsidiary of Electra to its fellow subsidiary, below ("split and merger arrangement"). On September 28, 2008, a request was submitted in the courts for the approval of the arrangement pursuant to Sections 350 and 351 of the Corporate Law, 1999, (hereinafter - "the request"). On October 6, 2008, a decision of the court was handed down in the case of the request for the arrangement (Bankruptcy case 2557/08), whereby approval was given to the convening of the meetings, the calling of which within the framework of the request was requested. On December 30 2008, after the approval of the Audit Committee and the Board of Directors of the Company, a request was submitted in the courts to change the set date, split date and balance sheet set date from September 30 2008 to December 31 2008. On January 1 2009 the court approved this request.

1.2. Following the receipt of the approval of the Securities Authority in respect of the arrangement for the split and the merger, after the receipt of a per-ruling from the tax authorities and after the receipt of the Audit Committee and the Board of Directors of the company for the calling of meetings of a type of shareholders in the company, of the bond holders of the company (Series A and B), invitations to the said meetings were published. On August 26, 2009, meetings of the type of security of the company were called.

1.3. On August 10, 2009, an application was filed in the Tel-Aviv District Court for the updating of the change in the outline of the transaction, in a manner those accords with the outline that was within the framework of the summoning of the meetings for each type of security. On August 11, 2009, the court approved the request.

1.4. On August 26, 2009, meetings of the type of security of the company were called. The arrangement for the split and merger was approved by the meeting of the shareholders without the presence of the controlling shareholder, a meeting of the general shareholders, a meeting of the bond holders of the company (Series A) without the presence of the controlling shareholder, a meeting of the general bond holders (Series A), a meeting of the bond holders of the company (Series B) without the presence of the controlling shareholder, a meeting of the general bond holders (Series B).

The meetings of bond holders without the presence of the shareholders (Series A and B) were called at the said times, however because a legal quorum was not present, the timing of the meeting were deferred until September 2, 2009.

1.5. On September 14, 2009 the court approved the results of the type of securities meetings. After receiving the court approval for the carrying out of the structural change arrangement and receiving the approval of the various authorities as above detailed, the structural change, in within its framework the company was split from Electra and became from being her subsidiary to being her sister company, was carried out.

1.6 For further information, see notes 23.N.(1) and 23.N.(2) in the financial statements as of December 31, 2009.

2. On September 29, 2009 S&P Maalot credit rating agency downgraded the Company's Bonds (Series A and B) grading to (-ilA) with a negative grading forecast.

3. On November 26, 2009 the company published a Shelf Prospectus for the issuing of shares, options and bonds bearing the date of November 27, 2009 (hereinafter, together – "securities"). Offering the securities (or part of them) to the public, the more the company decides to carry out, will be according to the instructions of section 23A(f) to the securities law, by means of the Shelf Prospectus report, in which will be completed all the special details of the offer, as well as the composition of the offered units, according to the present time regulations and the instructions of the Stock Market. For further details see in the Shelf Prospectus bearing the date of November 27, 2009 the company published on November 26, 2009.
4. On December 22, 2009, the Company issued to the public NIS 144,919,000 par value of debentures (Series C) par value of \$ 0.26 par each, the debentures (Series C), are repayable in four equal installments on January 1 of the each of the years 2013 to 2016th, and bears fixed annual interest in the rate of 5.2%, be paid twice a year, on July 1 of each of the years 2010 to 2105 (inclusive) on January 1 of each of the years 2011 to 2016 (inclusive), the interest and principal of the debentures (Series C) are linked to the CPI index of November 2009. The proceeds from the issuance amounted to approximately \$ 38,389,139 million (gross). The total par value of the debentures (Series C) held by the public as of the date of publication of this report is NIS 144,919,000 par value.

E. Events after the balance period

1. In the period between the balance sheet date (December 31, 2009) and the publication date of the financial statements for the year 2009 (March 25, 2010), there were changes in exchange rates in relation to the shekel, including currencies in countries in which the Company operates.

Details on the aforesaid changes are as follows: (between December 31, 2009 and March 24, 2010)

Currency	Rate's Change (in %):
US Dollar	-0.9%
Euro	-8.1%
Pound Sterling	-8.5%
Swiss Franc	-4.5%
Canadian Dollar	+1.7%

Since a significant part of the Company's revenues are in foreign currency, the Company estimates that the changes in the exchange rates, correct as of the publication date of this report, may have an impact on the Company's results and balance sheet (including the Company's shareholders' equity) at a weighted rate of approximately +1%. Nonetheless, the effect of exchange rates on the operating results for the 1th quarter of 2010 in according to the exchange rates that actually occur throughout the entire quarter and at its end (March 31, 2010).

2. On January 18, 2010, the Company issued an additional NIS 55,081,000 par value of debentures (Series C), the debentures were issued at identical terms to those outstanding as mentioned above. The proceeds from the issuance amounted to approximately \$ 14.8 million (gross). The total par value of the debentures (Series C) held by the public as of the date of publication of this report is NIS 200,000,000 par value.

F. Senior officers Remuneration

The company estimates the remuneration to all three senior officers (CFO and Two CEO) as detailed in regulation number 21 "Extra details report of the corporation" which comprise inseparable part of the annual report for 2009, as a fair and reasonable reward, particularly due to the fact that a material part of the remuneration is derived from the company's performance and due to it being paid through a bonus calculated on results basis (income before tax). Each of the senior officers noted in regulation number 21 is a

material officer in the company and belong to the company's senior management, therefore, the company believe that it is right to link between the company's performance and the officers remuneration. Despite that the Audit Committee and the Board of Directors of the Company approved a special remuneration to the CFO and the Two CEOs of the company. For further information, see note 23(7) in the financial as of December 31, 2009. The director remuneration executed according to the max border respectively to the company's ranking

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

Company's policy and method for managing business risk

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

In each country where it invests in yielding assets it obtains loans in the same currency which is used for investment purposes. The interest rate on long-term loans is ordinarily fixed.

Cash balances are deposited in reputable banks and used to acquire marketable securities. With regard to Company's investments in marketable securities – see note 6 in the Report of the Business Description of the Company as of December 31, 2009. Company management reports from time to time to the Board of Directors on the market risks and the Company's exposure to them. The means taken to reduce the risks are presented to the Board of Directors for its approval.

Officers responsible for managing market risks

The management of market risks by the Company is conducted by the Company's Chief Executive Officer, the Chief Financial Officer and the Business Development Manager. For details regarding risk factors to which the Company is exposed, see note 29 in the Report of the Business Description of the Company as of December 31, 2009.

H. 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.

I. Implementation plan to examine the effectiveness of the internal controls of the Company (ISOX)

On November 24 2009, amendment no. 3 to the Securities Regulations (Periodic and Immediate Reports), 5770-2009 was published. The amendment requires a publication of:

Management and board of directors' report about the internal control effectiveness during the process of preparing the financial reporting, disclosure and personal declarations by the CEO and of the most senior

officer in the field of finance with respect to the effectiveness of the internal controls of the financial reporting, disclosure, as well auditors' report about the financial reporting internal control' effectiveness starting from the periodic report as of December 31, 2010.

Below is a description of the Company preparation and progress as well as the actions taken by the Company's management until the date of the report in accordance with the requirements of the transition provisions in the regulations.

- a. The Company has established a preparation plan for implementation of the regulations. This plan is based on an assessment of the risks relevant to the financial reporting and the disclosure performed by the Company on the balances and disclosures in the financial statements based on quantitative and qualitative criteria, as follows:
 - The complex of the business process
 - The extent of the activity
 - Exposure to fraud and embezzlement
 - Scope of discretion required
 - And other Considerations.

- b. The person responsible for implementation of the project at the Company is, Mr. Tzachi Otsar. In addition, the Company's management intends to establish a steering committee which oversees the implementation of the project company, including compliance with milestones set by the Securities Authority and by the project's schedule and report discrepancies found in the control, and plans for their repair.

- c. In the framework of preparations to implement the regulations in the company, there will be evaluating of internal control effectiveness in the following controls:
 - Enterprise-level controls that include among others:
 - Management override controls
 - Risk assessment process
 - Evaluation Process and the control over the organization results of operation
 - The closing and reporting process which is the last segment of the financial reporting process
Which includes the following actions:
 - Collecting data from the balance sheet and performing substantive tests to examine the adequacy of the received data;
 - Determination and application of accounting policies;
 - Making adjustments to edit the annual financial statements or the quarterly financial statements;
 - Preparation and editing of the financial statements including the relevant disclosures;
 - Discussion and approval of the financial statements in the relevant institutions;
 - General controls in the IT systems (IT GC) - Information systems that will be checked in this framework are just information systems that have to do with financial reporting.
 - In addition to the above three control areas, the following processes were identified as very significant to the financial reporting and disclosure in the company:
 - Revenues from rental fees, management fees and other
 - Yielding assets
 - Loans to finance the yielding assets.

As of the reporting date the Company has completed the planning stage and the stage of the documentation of existing controls, in the company's headquarters and in the investee companies in the U.S. and Canada.

J. 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:

1. Prof. Israel Zeng:

Third degree holder in Operations Research of the Technion. Serves and served as a director in several public companies. 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. Served as rector vice in Tel-Aviv University, as dean of the management faculty in Tel-Aviv University, as president of the Operations Research association. In addition, Prof. Zeng served as a member of the management committee and finance committee of university of Tel-Aviv.

2. Prof. Ben Ami Zukerman:

Third degree holder in business administration. Served as a chairman and director of several public companies. 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.

Wrote much publication in Israel and abroad in several topics such as: finance, capital market, taxation, insurance and accountancy. 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.

K. Independent Directors

The company didn't adopt in her set of rules any instruction relating independent director's proportion (as defined in paragraph 219 to the corporate law, 1999).

L. Disclosure concerning the Company's Internal Auditor

1. Details of the Internal Auditor

- The main internal auditor in the Company is Mr. Hillel Lavi, who has served in this capacity since November, 2005.
- 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.
- 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.
- 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.

- 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**

- 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.
- 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.
- The Internal Auditor has discretion to deviate from the work plan as necessary.
- The process of approving material transactions is being examined.

5. **Overseas audit and/or of investee companies**

- 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.
- 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 performed in 2009, 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	360	-	360
Overseas activities	-	60	60
Total	360	60	420

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

- 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.
- 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

- 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 2009, two meetings were held, on February 9, 2009 and on November 29, 2009.
- 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

- The Internal Auditor is a salaried employee of the parent company, Elco Holdings Ltd.
In the opinion of the Board of Directors, the remuneration of the Internal auditor does not constitute a factor influencing his professional discretion

M. Disclosure concerning the independent auditors' fee

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

Firm	Company	2009				2008		
		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
Brightman Almagor Zohar & Co.	Electra real Estate Ltd. & Electech Real Estate INC	215	62	for audit services 4,450	for additional work 1,280	185	29	4,850
Autocan Audit	Companies hold the German Partnerships	120	-	1,870		204	-	2,700
Staathof B.V	Companies in Holland	-	-	-		115	-	650
KPMG	Entities in Canada	107	54	654		91	26	665

(*) The fee of the independent auditors of the Company is determined in a negotiation between the company's management and the independent auditors and the companies believe it is reasonable and acceptable according to the company's nature and scope of operations. The fee is approved by the company's management.

N. Disclosure concerning agreement to perform practice review

(Guidance of the Securities Authority paragraph 36 a (b) of the Securities Regulations, 1968).

Continuance to the Securities Authority's guidance from July 28 2005, compelling public companies to disclose concerning agreement to perform "practice review", which supposed, as mentioned in the guidance, to start a process of checking the independent auditors' work of the public companies, on March 29, 2006 the company's board of directors approved the grant of the required agreement to perform a review, according to a draft that will be confirmed by the company's CEO.

O. 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 of 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.

P. Contributions

In 2009, the Company in Israel donated a total of \$42 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

Gershon Salkind
Chairman of the Board of Directors

March 25, 2010

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

We have reviewed the condensed consolidated balance sheet of **Electra Real Estate Ltd.** and its subsidiaries (hereinafter - "the Group") as of December 31, 2009, and the related condensed consolidated statements of operations, comprehensive income statement, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009 and have issued our accountants review report thereon dated March 25, 2010.

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

As noted in our aforementioned review report, we were furnished review reports of other accountants concerning the review of interim financial statements of consolidated subsidiaries whose assets constitute approximately 79% of the total consolidated assets as of December 31, 2009 (2008 - 87%) and whose revenues, for the three years ended December 31, 2009, 2008 and 2007 constitute approximately 92%, 88% and 81%, 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, 2009 and 2008 amounted to \$105 million and \$104 million, respectively, and the Company's share in their results for the three years ended December 31, 2009 amounted to \$9.6 million, \$6.4 million, and \$0.4 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 (Annual Financial Statements), 2010 .

As described in Note 1, the accompanying English-language condensed consolidated financial statements in US dollars represent a translation of the above-mentioned NIS financial statements into US dollars in condensed form solely for the convenience of the reader ("convenience translation"), using the representative dollar exchange rate in effect on December 31, 2009. Comparative figures for the for the year ended December 31, 2008 and for the year ended December 31, 2007 represent a translation of the original NIS values of the respective period, using the representative dollar exchange rate in effect on December 31, 2009. These condensed financial statements do not include all the disclosures necessary for presentation of the financial statements in conformity with generally accepted accounting principles.

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

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel-Aviv, March 25, 2010

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

	<u>December 31,</u> <u>2009</u> <u>In thousands</u> <u>(Audited)</u>	<u>December 31,</u> <u>2008</u> <u>In thousands</u> <u>(Audited)</u>
ASSETS		
<u>Current assets</u>		
Cash and cash equivalents	115,157	75,146
Short-term deposits	10,520	14,063
Marketable securities	2,568	2,987
Trade accounts receivable	3,550	4,694
Current tax assets	2,245	932
Receivables and other current assets	4,431	6,390
Inventory of land for sale and residential apartments	35,092	-
Assets to be realized	20,337	-
	<u>193,900</u>	<u>104,212</u>
<u>Non current assets</u>		
Investments in affiliates	175,407	173,345
Loans and long-term receivables	32,068	23,359
Fixed assets	521	284
Inventory of land	-	25,163
Investments in equity instruments designated at fair value through other comprehensive income	23,046	38,762
Deferred income taxes	1	1,905
	<u>231,043</u>	<u>262,818</u>
<u>Yielding assets in -</u>		
Europe	1,136,948	1,413,756
North America	475,581	543,520
Israel	169,726	193,571
Britain	20,292	37,045
	<u>1,802,547</u>	<u>2,187,892</u>
Total Assets	<u><u>2,227,490</u></u>	<u><u>2,554,922</u></u>

The accompanying notes are an integral part of the financial statements

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

	December 31, 2009	December 31, 2008
	In thousands	In thousands
	(Audited)	(Audited)
LIABILITIES AND EQUITY		
<u>Current liabilities</u>		
Short term credit (including loans and bonds current maturities)	162,348	173,241
Current tax liabilities	4,899	3,982
Trade accounts payable	4,388	3,076
Payables and other current liabilities	75,063	59,177
Obligations due to assets to be realized	14,256	-
	260,954	239,476
<u>Non current liabilities</u>		
Debentures	116,191	95,402
Long-term loans to finance development projects	-	16,615
Liabilities in respect of index-linked options	-	35
Loans from Electra Group companies	21,030	20,687
Loans from shareholders in subsidiaries	3,509	2,675
Employee benefit liability	802	725
Other long-term liabilities	21,933	30,599
Deferred income taxes	62,325	80,013
	225,790	246,751
Loans for financing investments and yielding assets and other financial investments:		
Europe	990,456	1,238,063
North America	362,667	422,108
Israel	72,539	46,985
Britain	38,844	42,524
	1,464,506	1,749,680
<u>Equity</u>		
Ordinary Share Capital 0.0001 NIS Net Value	1	1
Share premium	135,929	135,929
Capital reserves	(60,135)	(60,226)
Retained earnings	193,964	237,859
Equity attributable to the Company's shareholders	269,759	313,563
Minority interests	6,481	5,452
Total equity	276,240	319,015
Total Liabilities and Equity	2,227,490	2,554,922

March 25, 2010

Approval date of the financial statements	Zvi Duskin	Shlomo Sherf	Gershon Salkind
	CFO	CEO	Chairman of the Board of Directors

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

ELECTRA REAL ESTATE LTD.

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

	2009	2008	2007
	In thousands		
	(Audited)		
Rental fees, management fees and others	190,327	207,187	189,021
Revenue cost	59,656	62,232	58,884
Gross profit	130,671	144,955	130,137
Adjustment of fair value, results of disposal of yielding properties and others, net	(53,213)	(38,032)	70,620
Company's share in results of affiliates, net	(25,016)	(6,993)	5,471
General and administrative expenses	(8,548)	(7,893)	(12,053)
Revaluation of liabilities in respect of index-linked options	34	3,289	(849)
Operating profit	43,928	95,326	193,326
Financing expenses	(105,850)	(125,847)	(103,004)
Financing income	8,698	16,931	3,790
Pre-tax income (loss)	(53,224)	(13,590)	94,112
Tax benefit (expenses)	9,934	(5,826)	(20,965)
Net income (loss) for the period	(43,290)	(19,416)	73,147
Attributable to:			
The Company's shareholders	(43,895)	(19,310)	72,643
Minority interest	605	(106)	504
Net income (loss) for the period	(43,290)	(19,416)	73,147
 Earnings (Loss) per share (in dollars) attributed to the Mother Company's shareholders:			
Basic	(1.67)	(0.74)	2.83
Diluted	(1.67)	(0.74)	2.79
 Weighted average number of ordinary			
Basic	26,265	26,265	25,645
Diluted	26,265	26,265	26,320

The accompanying notes are an integral part of the financial statements

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

	Year ended December 31,		
	2009	2008	2007
	In thousands		
	(Audited)		
Net income (loss) for the period	(43,290)	(19,416)	73,147
Other comprehensive income (loss)			
Profit (loss) due to remeasuring of investments in equity instruments designated at fair value through comprehensive income, net of tax	(15,716)	(43,096)	7,449
Profit (loss) from exchange rate in connection with loans designated for hedging of investments in equity instruments	(2,610)	10,024	2,679
Loss due to cash flow hedges, net of tax	(561)	(1,385)	1,521
Adjustments on the translation of financial statements of overseas activities	19,306	(47,154)	(2,995)
Other inclusive income (loss), net tax	419	(81,611)	8,654
Total other inclusive income (loss) for the period	(42,871)	(101,027)	81,801
Total other inclusive income (loss) for the period attributed to:			
The Company's shareholders	(43,900)	(99,352)	80,314
Minority interest	1,029	(1,675)	1,487
	(42,871)	(101,027)	81,801

The accompanying notes are an integral part of the financial statements

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

Year ended December 31, 2009

	<u>Share Capital</u>	<u>Share premium</u>	<u>Capital reserve from revaluation of investments in equity instruments designated at fair value</u>	<u>Capital reserve from Share based Payments</u>	<u>Capital reserve from cash flow hedges</u>	<u>Capital reserve from foreign currency translation adjustment</u>	<u>Retained earnings</u>	<u>Total shareholders equity</u>	<u>Minority Interests</u>	<u>Total equity (In thousands)</u>
Balance - January 1, 2009	1	135,929	(13,722)	1,411	(856)	(47,059)	237,859	313,563	5,452	319,015
Loss for the period							(43,895)	(43,895)	605	(43,290)
Profit (loss) due to remeasuring of investments in equity instruments designated at fair value through comprehensive income, net of tax			(15,716)					(15,716)		(15,716)
Profit (loss) from exchange rate in connection with loans designated for hedging of investments in equity instruments			(2,610)					(2,610)		(2,610)
Loss due to cash flow hedges, net of tax					(561)			(561)		(561)
Adjustments on the translation of financial statements of overseas activities						18,882		18,882	424	19,306
Total profit (loss) for the period	<u>-</u>	<u>-</u>	<u>(18,326)</u>	<u>-</u>	<u>(561)</u>	<u>18,882</u>	<u>(43,895)</u>	<u>(43,900)</u>	<u>1,029</u>	<u>(42,871)</u>
Share-based payment				96				96		96
Total transactions with the company's share holders during their duty	<u>-</u>	<u>-</u>	<u>-</u>	<u>96</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96</u>	<u>-</u>	<u>96</u>
Total Equity – December 31, 2009	<u>1</u>	<u>135,929</u>	<u>(32,048)</u>	<u>1,507</u>	<u>(1,417)</u>	<u>(28,177)</u>	<u>193,964</u>	<u>269,759</u>	<u>6,481</u>	<u>276,240</u>

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

ELECTRA REAL ESTATE LTD.

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

Year ended December 31, 2008

	Share Capital	Share premium	Capital reserve from revaluation of available for sale assets	Capital reserve from Share based Payments	Capital reserve from cash flow hedges	Capital reserve from foreign currency translation adjustment	Retained earnings	Total shareholders equity	Minority Interests	Total equity (In thousands)
Balance - January 1, 2008	1	135,929	19,350	1,183	529	(1,474)	262,387	417,905	7,127	425,032
Loss for the priod							(19,310)	(19,310)	(106)	(19,416)
Loss due to revaluation of available for sale assets, net tax			(43,096)					(43,096)		(43,096)
Profit (loss) due to currency change differences concerning loans that were designated for hedging available for sale assets.			10,024					10,024		10,024
Loss due to cash flow hedges, net tax					(1,385)			(1,385)		(1,385)
Adjustments on the translation of financial statements of overseas activities						(45,585)		(45,585)	(1,569)	(47,154)
Total profit (loss) for the period	-	-	(33,072)	-	(1,385)	(45,585)	(19,310)	(99,352)	(1,675)	(101,027)
Dividend paid							(5,218)	(5,218)		(5,218)
Share-based payment				228				228		228
Total transactions with the company's share holders during their duty	-	-	-	228	-	-	(5,218)	(4,990)	-	(4,990)
Total Equity – December 31, 2008	1	135,929	(13,722)	1,411	(856)	(47,059)	237,859	313,563	5,452	319,015

The accompanying notes are an integral part of the financial statements

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

Year ended December 31, 2007

	<u>Share Capital</u>	<u>Share premium</u>	<u>Capital reserve from revaluation of investments in equity instruments designated at fair value</u>	<u>Capital reserve from Share based Payments</u>	<u>Capital reserve from cash flow hedges</u>	<u>Capital reserve from foreign currency translation adjustment</u>	<u>Retained earnings</u>	<u>Total shareholders equity</u>	<u>Minority Interests</u>	<u>Total equity</u>
	(In thousands)									
Balance - January 1, 2007	1	111,301	9,222	739	(992)	2,504	189,744	312,519	9,549	322,068
Net income for the period							72,643	72,643	504	73,147
Profit due to remeasuring of investments in equity instruments designated at fair value through comprehensive income, net of tax			7,449					7,449		7,449
Profit (loss) from exchange rate in connection with loans designated for hedging of investments in equity instruments			2,679					2,679		2,679
Profit due to cash flow hedges, net tax					1,521			1,521		1,521
Adjustments on the translation of financial statements of overseas activities						(3,978)		(3,978)	983	(2,995)
Total profit (loss) for the period	-	-	10,128	-	1,521	(3,978)	72,643	80,314	1,487	81,801
Share-based payment				444				444		444
Dividend paid to minority									(3,909)	(3,909)
Exercise of stock options		24,628						24,628		24,628
Total transactions with the company's share holders during their duty	-	24,628	-	444	-	-	-	25,072	(3,909)	21,163
Total Equity – December 31, 2007	1	135,929	19,350	1,183	529	(1,474)	262,387	417,905	7,127	425,032

The accompanying notes are an integral part of the financial statements

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

	Year ended December 31,		
	2009	2008	2007
	In thousands		
	Audited		
Cash Flow - Operating Activities:			
Net income (loss) for the period	(43,290)	(19,416)	73,147
Adjustments required to present cash flows from operating activities (Appendix A)	66,851	43,905	(45,242)
Net cash - operating activities	23,561	24,489	27,905
Cash Flows - Investing Activities:			
Proceeds from the sale (invest) of marketable securities, net	459	(15)	9,051
Collection (Giving) of Long-term loans	(6,241)	15	654
Consolidation exit of investees that were proportionately consolidated (Appendix B)	19,672	(2,156)	24,791
Change in short-term deposits	6,187	6	3,749
Change in long-term deposit, net	-	(2,735)	26,651
Changes in investments and loans to investee companies, net	(3,014)	(11,295)	(81,814)
Initial consolidation of an affiliate (Appendix C)	-	(2,881)	-
Initial full consolidation of a subsidiary (Appendix D)	-	-	(49,221)
Acquisition and construction of yielding assets	(51,473)	(56,510)	(1,264,041)
Acquisition of fixed assets and other assets	(263)	(148)	(8)
Proceeds from disposition of yielding properties	32,314	50,755	70,501
Net cash used in investing activities	(2,359)	(24,964)	(1,259,687)
Cash Flows - Financing Activities:			
Bond issues net of issue expenses	37,874	-	-
Dividend paid	-	(5,218)	-
Dividend payment in a subsidiary to the minority shareholders	-	-	(3,909)
Issuance of shares net of issue expenses	-	-	15,085
Receipt of long-term loans	46,379	81,939	1,326,273
Repayment of long-term loans	(45,958)	(65,177)	(57,776)
Receipt (repayment) of loans and capital notes from the Electra Group companies, net	4,257	(4,391)	-
Receipt (Repayment) of loans and capital notes from minority shareholders in consolidated subsidiaries, net	-	(183)	(1,186)
Repayment of loan from affiliate companies	-	-	(23,792)
Repayment of bonds	(18,353)	(16,176)	-
Prepayment of bonds and long-term liabilities	(8,902)	(23,202)	-
Short-term bank borrowings, net	1,935	(11,156)	35,380
Net cash - financing activities	17,232	(43,564)	1,290,075
Increase (Decrease) in cash and cash equivalents	38,434	(44,039)	58,293
Cash and cash equivalents at beginning of period	75,146	124,859	66,011
Translation differences relating to cash balances in foreign currency	1,577	(5,674)	555
Cash and cash equivalents at end of period	115,157	75,146	124,859

The accompanying notes are an integral part of the financial statements

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

Year ended December 31,		
2009	2008	2007
In thousands		
Audited		

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

Expenses (income) not involving cash flows:

Company's share in results of affiliates, net	25,016	3,874	(3,353)
Gain from prepayment of bonds and long-term liabilities	(2,747)	(14,828)	-
Depreciation and amortization	93	307	66
Adjustment of fair value and results of disposal of yielding properties, net	53,213	38,032	(70,620)
Loss (Gain) from marketable securities	(155)	138	(544)
Recording of expenses in connection with share based payments	95	228	444
Revaluation of liabilities in respect of index-linked options	(34)	(3,289)	848
deferred income tax net	(12,454)	3,068	18,820

Changes in assets and liabilities:

Trade accounts receivables	(303)	589	(6,227)
Receivables and other current assets	(951)	1,462	(1,790)
Trade accounts payables	1,287	204	(865)
Payables and other current liabilities	2,929	2,992	12,901
Change in value of long-term receivables and liabilities, net (including interest charged to the parent company)	862	11,128	5,078
	66,851	43,905	(45,242)

Appendix B - Consolidation exit of investees that were proportionately consolidated

Net working capital (excluding cash)	(59,820)	246	1,249
Long-term receivables	(514)	6,173	1,715
Yielding assets, net	443,755	103,878	70,574
Long-term liabilities	(365,847)	(115,395)	(47,086)
Investment in affiliates	(20,021)	-	-
Gain (Loss) from investments realization	(2,021)	2,942	(1,661)
Compensation from the sale of proportionately consolidated companies	24,140	-	-
	19,672	(2,156)	24,791

Appendix C - Initial consolidation of an affiliate

Net working capital (excluding cash)	-	10,175	9,301
Long-term receivables	-	(1,173)	-
Yielding assets, net	-	(15,536)	(31,136)
Investment in affiliates	-	2,681	12,750
Long-term liabilities	-	972	9,085
	-	(2,881)	-

The accompanying notes are an integral part of the financial statements

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

Year ended December 31,		
2009	2008	2007
In thousands		
Audited		

Appendix D - Initial full consolidation of a subsidiary

Net working capital (excluding cash)	-	-	2,483
Yielding assets, net	-	-	(299,099)
Long-term liabilities	-	-	247,395
	-	-	(49,221)
	-	-	-

Appendix E – Additional cash flow information

Cash paid during the period:

Interest	103,668	119,351	66,426
Income taxes	3,078	780	3,134

Cash received during the period:

Interest	927	2,300	1,377
Income taxes	443	45	-

Appendix F – NonCash transactions

Purchase of yielding property on credit	4,492	1,734	15,605
Conversion of liability index-linked options	-	-	9,605

The accompanying notes are an integral part of the financial statements

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

Note 1 - General

- A.** Electra Real Estate Ltd. (hereinafter – "the Company") was founded on May 15, 1972, In August 2005, the Company became a public company whose securities are traded on the Tel Aviv Stock Exchange. The Company is engaged (both directly and through investee companies) in the purchase, leasing, and sale of rental properties in Israel and abroad and in the initiation and establishment of projects in the field of real estate in Israel and abroad.

As of September 30, 2009 – the company is held directly by Elco Holdings Ltd (hereinafter – The Parent company) see note 23N. Until September 30, 2009 the company was held by Electra Ltd, a subsidiary of Elco Holdings Ltd.

Additional information of the group's segmental activities is presented in note 3.

B. Surplus current liabilities over the current assets

As of the balance sheet date, the Company had a Surplus of current liabilities over the current assets amounting to \$ 67 million. A description of the main measures being taken by the Company in order to repay the deficit in working capital is as follows:

a. Liabilities to foreign financial institutions

In 2010, The Company anticipates repaying loans (of the non recourse type) to foreign financial institutions in Canada and in Switzerland in the amount of approximately 62.1 million Canadian Dollars (approximately \$ 59.3 million) and an amount of approximately 12.8 million Sfr (approximately \$ 12.4 million), respectively. The fair value of the properties which the loans financed, as of the reporting date, is approximately approximately 108.4 million Canadian Dollars (approximately \$ 103.4 million) and an amount of approximately 20 million Sfr (approximately \$ 19.4 million) The company is negotiating with several financial institutions to extend these loans. The Company believes that these loans will be repaid by way of refinancing. These loans were included during the reporting periods as current liabilities.

b. Liabilities to financial institutions in Israel

- In December 2009, the Company reached an understanding with two financial institutions in Israel for the extension of the repayment dates of loans in a total financial volume of approximately \$ 52 million from the year 2010 to the month of January 2011. (These loans are classified in the financial statements as long term liabilities).
- In March 2010, the Company reached an understanding with one of the aforementioned financial institutions with respect to an additional extension of loans in a financial volume of approximately \$ 22 million from the month of January 2011 to the month of January 2012.
- The Group has short term credit in the amount of approximately \$ 15 million, secures by a fixed lien on income producing property in Israel.
- The company will finance part of the loans repayment from its own sources and is acting to extend the repayment of the balance of the loans.

c. Unutilized credit lines

As of December 31, 2009, the Company has unutilized long term credit lines in the amount of approximately \$ 41.6 million.

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

Note 1 - General (Cont.)

B. Extra current liabilities over the current assets (Cont.)

d. Realization of properties

- During the reporting period, the Company sold its rights in a number of properties in Israel and abroad. The cash flows derived by the Company (gross, pre-tax), after deducting loans and obligations with respect to the properties, was approximately \$ 56.4 million.
- Subsequent to the reporting period, the Company signed an agreement concerning the sale of its holdings in property in Great Britain. The transaction is expected to close at the end of March 2010. The cash flows to be derived to the Company as the result of the sale of the property is approximately \$ 5.6 million.
- The Company intends to act to realize a number of additional properties during the years 2010 and 2011, both abroad and in Israel, with the realization proceeds, after deducting loans taken to acquire them, leading to an increase in the cash balances of the Company and enhancing the Company's working capital.

e. Current cash flow

- In 2009, the Company had a positive cash flow from operating activities totaling to approximately \$ 23.6 million.

f. Fundraising through a prospectus

According to a Shelf Prospectus Report the company published on December 21, 2009 (hereinafter : "Shelf Prospectus Report"), the company issued to the public NIS 144.919 million par value (\$ 38.39 million par value) of debentures (Series C) registered in the name, are repayable in four equal installments on January 1 of the each of the years 2013 to 2016th. Total proceeds amounted to approximately \$ 37.9 million. For additional information see note 17 b (3).

After the balance sheet date, according to the same Shelf Prospectus the company published, the company issued the public an additional NIS 55.8 million par value (\$ 14.8 million par value) of debentures (Series C) registered in the name of NIS 1 par value par each. Total proceeds amounted to approximately \$ 14.8 million. For additional information see note 31.

Noting the range of potential sources at its disposal, Company management believes that, as of the approval date of the financial statements, it has sufficient financial resources for repaying its current liabilities.

- C.** These condensed financial statements should be reviewed in conjunction with the Company's annual statements as of December 31, 2009 and for the year then ended and the notes related thereto.
- D.** These financial statements are presented in US dollars, derived from convenient translation of the financial statements prepared in NIS, into US dollars by using the conversion rate prevailing on December 31 ,2009 (\$1.00= NIS 3.775).

The accompanying English-language condensed consolidated financial statements in US dollars represent a translation of the above-mentioned NIS financial statements into US dollars in condensed form solely for the convenience of the reader ("convenience translation"), using the

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

Note 1 - General (Cont.)

B. Extra current liabilities over the current assets (Cont.)

Representative dollar exchange rate in effect on December 31, 2009. Comparative figures for the for the year ended December 31, 2008 and for the year ended December 31, 2007 represent a translation of the original NIS values of the respective period, using the representative dollar exchange rate in effect on December 31 ,2009. These condensed financial statements do not include all the disclosures necessary for presentation of the financial statements in conformity with generally accepted accounting principles

Note 2 - Reporting principles and accounting policies

A. Statement regarding the implementation of International Financial Reporting Standards (IFRS):

The consolidated financial statements of the Company have been prepared in conformity with International Financial Reporting Standards and their interpretations published by IASB. The principal accounting policies have been applied in these statements on a basis consistent with those applied in comparison years presented in these statements, except for the changes in the accounting policy resulting from the implementation of accounting standards, accounting standards revisions and interpretations which came into force at the time of the reporting financial statements as detailed in note 2V. and except for the changes in the accounting policy resulting from the implementation of accounting standards, accounting standards revisions and interpretations which are outdated and were adopted by the group in early adoption as detailed in note 2V(3).

B. The consolidated financial statements are prepared in accordance with the Securities Regulations (Annual Financial Statements) 2010 (Hereinafter – "The Financial Statements Regulations").

The company management reviewed the format of the presentation and preparation of the financial statements, and decided to present the statement of income by the characteristic activity of the expense starting from the annual financial statements as of December 31, 2009.

C. Exchange rates and linkage

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

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

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

C. Exchange rates and linkage (Cont.)

(3) Following are details on the exchange rates and CPI:

	<u>December 31,</u>	
	<u>2 0 0 9</u>	<u>2 0 0 8</u>
Actual CPI (1993 basis)	206.19	198.42
Known CPI (1993 basis)	206.19	198.61
<u>In NIS:</u>		
US Dollar	3.78	3.80
Pound Sterling	6.11	5.55
Canadian Dollar	3.60	3.11
Euro	5.44	5.30
Swiss Franc	3.67	3.56
Indian Rupee	0.08	0.076

	<u>Year ended December 31,</u>	
	<u>2 0 0 9</u>	<u>2 0 0 8</u>
Change in exchange rate during the period then ended (in %):		
Actual CPI	3.91	3.8
Known CPI	3.81	4.5
US Dollar	(0.71)	(1.14)
Pound Sterling	10.15	(28.04)
Canadian dollar	15.75	(20.60)
Euro	2.73	(6.41)
Swiss Franc	2.87	4.23
Indian Rupee	5.26	(0.22)

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

Note 3 - Geographical segments

Consolidated data, by operating segments:

Due to the company's business nature, the segment results are net of financing expenses and include profit from the realization of assets, the segment liabilities includes financial liabilities identified to specific assets.

	<u>Israel</u>	<u>Europe</u>	<u>North America</u>		<u>Other</u>	<u>Total</u>
	US\$ in thousands					
As of December 31, 2009						
Assets value according to geographical location	<u>297,845</u>	<u>1,253,490</u>	<u>614,240</u>	(*)	<u>61,915</u>	<u>2,227,490</u>
Invetment in affiliate according to geographical location	<u>-</u>	<u>14,312</u>	<u>99,180</u>	(*)	<u>61,915</u>	<u>175,407</u>
Liabilities according to assets' geographical location	<u>536,841</u>	<u>975,629</u>	<u>376,456</u>		<u>62,325</u>	<u>1,951,251</u>
Year ended December 31, 2009						
Revenues	<u>11,122</u>	<u>105,710</u>	<u>75,435</u>		<u>(1,940)</u>	<u>190,327</u>
Profit (loss) before tax expense	<u>(3,847)</u>	<u>(20,122)</u>	<u>(27,315)</u>		<u>(1,940)</u>	<u>(53,224)</u>
Yielding assets acquisition	<u>36,085</u>	<u>896</u>	<u>14,513</u>		<u>-</u>	<u>51,494</u>
Other Information						
Adjustment of fair value, results of disposal of yielding properties, net	<u>(1,026)</u>	<u>(39,734)</u>	<u>(12,453)</u>		<u>-</u>	<u>(53,213)</u>

(*) mainly represents an investment in India

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

Note 3 - Geographical segments (Cont.)

	<u>Israel</u>	<u>Europe</u>	<u>North America</u> US\$ in thousands		<u>Other</u>	<u>Total</u>
As of December 31, 2008						
Assets value according to geographical location	<u>288,042</u>	<u>1,532,324</u>	<u>677,101</u>	(*)	<u>57,455</u>	<u>2,554,922</u>
Investment in affiliate according to geographical location	<u>-</u>	<u>14,644</u>	<u>103,152</u>	(*)	<u>55,549</u>	<u>173,345</u>
Liabilities according to assets' geographical location	<u>488,152</u>	<u>1,238,313</u>	<u>429,427</u>		<u>80,013</u>	<u>2,235,905</u>
Year ended December 31, 2008						
Revenues	<u>14,218</u>	<u>116,180</u>	<u>79,108</u>		<u>(2,319)</u>	<u>207,187</u>
Profit (loss) before tax expense	<u>(928)</u>	<u>3,155</u>	<u>(13,498)</u>		<u>(2,319)</u>	<u>(13,590)</u>
Yielding assets acquisition	<u>16,740</u>	<u>12,608</u>	<u>11,984</u>		<u>-</u>	<u>41,332</u>
Other Information						
Adjustment of fair value, results of disposal of yielding properties, net	<u>(5,372)</u>	<u>(17,244)</u>	<u>(15,416)</u>		<u>-</u>	<u>(38,032)</u>

(*) mainly represents an investment in India

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

Note 3 - Geographical segments (Cont.)

	<u>Israel</u>	<u>Europe</u>	<u>North America</u>		<u>Other</u>	<u>Total</u>
	<u>US\$ in thousands</u>					
As of December 31, 2007						
Assets value according to geographical location	<u>270,817</u>	<u>1,943,510</u>	<u>776,513</u>	(*)	<u>65,666</u>	<u>3,056,506</u>
Invetment in affiliate according to geographical location	<u>2,681</u>	<u>19,501</u>	<u>97,203</u>	(*)	<u>65,262</u>	<u>184,647</u>
Liabilities according to assets' geographical location	<u>350,246</u>	<u>1,633,787</u>	<u>560,773</u>		<u>86,669</u>	<u>2,631,475</u>
Year ended December 31, 2007						
Revenues	<u>15,725</u>	<u>93,949</u>	<u>80,287</u>		<u>(940)</u>	<u>189,021</u>
Profit (loss) before tax expense	<u>7,239</u>	<u>59,477</u>	<u>28,335</u>		<u>(940)</u>	<u>94,112</u>
Yielding assets acquisition	<u>72,509</u>	<u>1,232,645</u>	<u>310,216</u>		<u>-</u>	<u>1,615,370</u>
Other Information						
Adjustment of fair value, results of disposal of yielding properties, net	<u>7,961</u>	<u>36,532</u>	<u>26,127</u>		<u>-</u>	<u>70,620</u>

(*) mainly represents an investment in India