

ELECTRA REAL ESTATE LTD.

**UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

(CONVENIENCE TRANSLATION INTO U.S. DOLLARS)

ELECTRA REAL ESTATE LTD.

Contents

		<u>Page</u>
Report of the Board of Directors	For six-month period ended June 30, 2006	1a-1k
Accountants' review		2
Interim consolidated financial statements: (unaudited)		
Balance sheet	- June 30, 2006	3-4
Statement of operations	- Six-month period ended June 30, 2006	5
Statement of changes in shareholders' equity	- Six-month period ended June 30, 2006	6-7
Statement of cash flows	- Six-month period ended June 30, 2006	8-9
Notes to the financial statements		10-22

ELECTRA REAL ESTATE LTD.

REPORT OF THE BOARD OF DIRECTORS AT JUNE 30, 2006 AND FOR THE SIX-MONTH PERIOD THEN ENDED

The Board of Directors of Electra Real Estate Ltd. is pleased to submit herewith the financial statements of the Company and its subsidiaries ("the Company") at June 30, 2006 and for the six-month period then ended (henceforth - "the period"). The Company's activities are also carried out through its subsidiaries.

A. The Company and its Business Environment

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

As of the date of the financial statements the Group holds, in Israel and abroad, 75 assets including 61 yielding assets and 14 assets in various stages of development and construction as well as 9.9% in 16 hotels across Britain, as follows:

<u>Country</u>	<u>Yielding assets</u>	<u>Nature of asset</u>
Israel	20	Yielding assets (including 6 assets under construction)
Britain	7 16	Yielding assets Hotels (Company's share- 9.9%)
Canada	10	Yielding assets
USA	7	Yielding assets (including one asset under construction)
Germany	24	Yielding assets (including three assets under construction)
Switzerland	4	Yielding assets (including three assets under construction)
Other countries in Europe	3	Assets (including one asset under construction)

Total area and average occupancy rates of yielding assets (including Company's share in assets of affiliates) – 600,000 sq. m. and 93%, respectively.

Activity in Israel

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

Foreign activity

Britain

On the balance-sheet date the Company held, through investees abroad, 6 commercial buildings in Britain, leased for periods expiring between 2010 and 2019, held at percentages of 75% and 100%. The annual rental fees from these properties amount to £2.2m (Company's share), with the Company obliged to pay annual leasing fees of £0.35m in respect thereof. An additional building is held through an affiliate (49%) and accounted for by the equity method. It is leased to two tenants for periods expiring in 2015 and 2028.

During the reported period the Company concluded a transaction for the sale of its entire holding (75%) in four properties in Britain at a pre-tax gain of \$1.1m pertaining to the entire 100% holding (Company's 75% share therein – \$ 811 thousand).

Canada

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in 8 commercial buildings in Canada that are held at various rates ranging from 90% to 100% in lease contracts for periods which ends between 2006 and 2022. The yielding annual rental fees amounting to C\$31.5m, net after management and maintenance fees – C\$16.7m. In addition, the company holds two buildings at an ownership rate of 49% and accounted for by the equity method.

In May 2006 a wholly owned and controlled foreign subsidiary of the Company acquired 30% of the rights in a yielding property in Toronto, Canada (following its acquisition – in January 2004 – of 70% of the rights based on a property value of C\$43m) at a cost of C\$21.3m (\$19.4) based on a property value of C\$71m, plus related expenses totaling C\$0.8m (\$0.7m). The 25-storey, 33,600 sq. m. - building is located in Toronto's business district and leased mainly to the Canadian government (about 50%) in a lease expiring in October 2015 and to the insurance company Zurich (about 30%) in a lease expiring in January 2014.

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

Following the recent meaningful increase in the property's value, the Company refinanced it by obtaining a 10-year loan of C\$57m (\$51.8m) from a Canadian bank at an annual fixed rate of 5.68%. The non-recourse loan is secured with a first-tier lien on the property and its expected rental revenues

USA

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

In addition, the company holds four assets through companies that accounted by the equity method. An additional asset is presented as a building under construction which is earmarked for conversion and sale as condo units.

In April 2006 a wholly owned and controlled foreign subsidiary of the Company acquired 40% of the rights in a yielding property in Atlanta, USA, at a cost of \$40m (100%), plus related expenses totaling \$1.4m. The 18-storey 40,500 sq. m. - building, which is designed for historical preservation, is located in Atlanta's business district and includes 625 indoor parking spaces. The building is leased to various tenants for various periods, with the lease of Sun Trust Bank (the main tenant) expiring in December 2010. The present occupancy rate is 78%, with annual gross rental fees amounting to \$6.7m, net of management and maintenance expenses - \$2.9m.

The transaction was financed by a 10-year, non-recourse bank loan of \$30.5m at a fixed interest rate of 6.33% and secured with a first-tier lien on the property and its expected rental revenues.

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

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

Germany and Switzerland

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in twelve buildings that are held at rates of 50 and 75 that yield annual rental fees of €7.5m.

An additional 10 properties held through affiliates at rates ranging between 40% and 45% and yielding annual rental fees in which the Company's share amounts to €10.2m. In addition, the Company holds six properties under various construction stages.

In January 2006 the Company concluded, through a held partnership, a transaction for acquiring 70% of the rights in an office building in Hamburg, Germany. The asset, a six-story office building of totaling 29,200 sq. m plus about 200 indoor parking spaces, was acquired (100%) for a gross amount of €70.3m (\$86.3m), plus related expenses totaling €6.5m (\$8.0m). The building is entirely leased to four tenants for various periods expiring between 2011 and 2015. Net annual rental fees (100%) amount to €5.5m (\$6.8m), linked to a mechanism providing an increment of 2% per annum payable at the beginning of the year. All management and maintenance expenses are paid by the tenants. A German financial institution provided a loan of €63.5m (\$78.0m), at an annual interest rate of 5.21% for a period of seven years. The loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

In March 2006 the Company acquired 70% in a project under construction in the city of Halle, Germany, estimated to cost about €14.4m (\$18.5m- 100%) plus an additional €0.5m (\$0.6m). The constructed six-storey, 8,800 sq. m.- building will consist of 400 parking spaces and be fully occupied by Dell Computers on a 10-year lease beginning with the end of the construction work (estimated completion date – October 2006). The annual net rental fees, which amount to €1.3m (\$1.7m – 100%), incorporate a mechanism allowing for an annual increase of 1.8% per annum at the beginning of each year, with all current management and maintenance fees paid by the tenant.

A German financial institution provided of €12.1m (\$15.5m) for financing the entire project at annual interest of 5.2%, repayable in seven years following project completion.

In May 2006 a wholly owned and controlled foreign subsidiary of the Company concluded, through a foreign subsidiary, a transaction for acquiring, in stages, 45% of the rights in eight shopping malls, five of which are located in German cities (Berlin, Munich and Nuremberg) and three in Swiss cities (Zurich, Biel and Lucerne). The area of all eight malls totals 125,000 sq. m.. The transaction is estimated at a cost of €203.4m (\$260m – 100%), plus related expenses of €11.6m (\$14.9m). The eight shopping malls are fully leased (100%) to Hornbach, a leading company in the DIY (“do it yourself”) domain, for a 15-year period starting with each project completion, with renewal options granted to the tenants. Expected gross rental fees amount to €12.8m (\$16.4m), linked to consumer-price index, with all management and maintenance fees paid by the tenant.

In the first stage the Company concluded the acquisition of rights to three malls (in Germany) at €53.1m (\$67.8m), plus related expenses totaling €4.5m (\$5.7m). The net annual rental fees (based on a 100% occupancy rate) from the three malls amount to €3.5m (\$4.5m), with the Company's 45% share therein amounting to €1.6m (\$2.0m).

The remaining malls, which are under various stages of construction – will be bought and paid with the completion of each mall and the start of rental fees, now estimated between the second half of 2007 and the end of the first half of 2008.

The banking credit line provided is €182.5m (\$233m) for financing the entire transaction at an expected average interest rate of 4.5% per annum. The five-year, non-recourse loan for the first three malls amounted to €48m (\$61.3m) at a fixed annual rate of 5.18%. The non-recourse loan is secured with a first-tier lien on the property and its expected rental revenues

In May 2006 a subsidiary acquired 70% of the rights in a yielding asset in Switzerland at a cost of SFr 24.7m (\$19.8m), including related expenses. The asset, a five-storey building, is located in Zurich, Switzerland and it consists of 13,000 sq. m. and 50 underground parking spaces. It is leased entirely to Phillips Ltd. by a lease expiring in May 2011. The lessee agreed to renovate the asset at a cost of SFr 6m. The net annual rental fees (100%) amount to SFr 1.7m (\$1.4m), with all management and maintenance fees paid by the lessee. A foreign financial institution provided a five-year loan of SFr 19.3m (\$15.5m) for financing the entire transaction at a fixed interest rate of 4.05%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

Subsequent to the balance-sheet date, in July, a foreign company in which the Company holds 40% of share capital, concluded a transaction for the sale of all the rights in seven yielding properties in Germany (west), presently leased to a subsidiary of Deutsch Telecom.

The rights in the assets were sold for an amount reflecting a value (100%) of €334m (\$421m), including related expenses. The Company's share in the pre-tax gain stemming from this sale amounted to \$20m. These assets were revalued in December 2005 to €303m (\$382m), following which the Company recorded in 2005 a profit of \$8.3m while enjoying a cash flow of €18.2m (\$22.7m), net of invested shareholders' equity, bank-loan repayment and the rest of the related expenses. The affiliate prepares its financial statements in accordance with accepted accounting standards, including IAS 40, based on which a yielding asset is presented at fair value. Accordingly, the affiliate reported during the period a gain from these assets' appreciation based on the selling price.

In July 2006 a wholly owned subsidiary acquired 65% of the rights in a yielding property in Zurich, Switzerland at a (100%) cost of SFr 109m (\$88.4m), plus related expenses of SFr 4.8m (\$3.9m). The asset, a building of 30,800 sq. m. is used as the telecommunication center of Swisscom Ltd., the country's national telecom company and is entirely leased by a 20-year agreement expiring March 2026, with an option to renew it for a period of 15 years (until 2041). The gross annual rental fees (100%) amount to SFr 6m (\$4.9m) (net of management and maintenance expenses— SFR 5.75m (\$4.7m)). The management and maintenance fees, which are payable by the lessee, are 80% linked to the Swiss CPI at the beginning of every year.

A foreign financial institution provided a seven-year loan of SFr 98.1m (\$79.5m) for financing the entire transaction at a variable interest rate of 2.5%, with a CAP maximum of 4.35%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

Hungary and France

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

B. Financial Position

Total balance-sheet assets on June 30, 2006 amounted to \$703.7m (December 31, 2005 – \$581.4m).

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

Current assets

Current assets on June 30, 2006 totaled \$46.6m as compared with \$48.7m on December 31, 2005.

Long-term investments

Long-term investments on June 30, 2006 amounted to \$157.3m (December 31, 2005 – \$128.1m). The increase stems mainly from long term investment in US and Germany.

Yielding assets

Total yielding assets on June 30, 2006 amounted to \$497.5m as compared with \$398.2m on December 31, 2005. The increase stems mainly from an investment in a yielding asset in Germany, Switzerland and Canada.

Current liabilities

Total current liabilities on June 30, 2006 amounted to \$62.8m (December 31, 2005 – \$50.8m).

Long-term liabilities

Long-term liabilities (including long-term loans obtained to finance the acquisition of yielding assets) on the balance-sheet date amounted to \$499.2m as compared with \$400.5m on December 31, 2005. The increase resulted mostly from loans obtained for investment in yielding assets in Germany, Switzerland and Canada. On June 30, 2006 the bank loans, which amounted to \$307m, constituted non-recourse loans secured by a first-tier lien on the asset and the receipts in respect thereof.

Shareholders' equity

Shareholders' equity, which amounted – on the balances-sheet date – to \$499.2m (December 31, 2005 – \$400.5m). (See statement of changes in shareholders' equity).

C. Results of operations

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

	Quarter 4-6/06	Quarter 1-3/06	Quarter 10-12/05	Quarter 7-9/05	Quarter 4-6/05
Revenues	15,382	14,423	12,868	12,879	12,241
Company's share in earnings of affiliates, net	11,567	1,734	8,618	1,583	2,531
Gain from sales of assets and investment	809	-	11,572	258	-
Total revenues	27,758	16,157	33,058	14,720	14,772
Operating expenses	9,538	8,134	11,236	6,542	5,888
Financing expenses, net	6,899	4,737	4,738	5,007	4,313
	16,437	12,871	15,974	11,549	10,201
Pre-tax income	11,321	3,286	17,084	3,171	4,571
Income taxes	215	528	2,356	(182)	393
Income after taxes on income	11,106	2,758	14,728	3,353	4,178
Minority interest in the results, net	56	(38)	51	(107)	4
Net income	11,162	2,720	14,779	3,246	4,182

Revenues

Revenues and affiliates' earnings in the second quarter of 2006 amounted to \$27m compared with \$14.8m in the same quarter last year, an increase of 82%.

Revenues and affiliates' earnings in the first half of 2006 amounted to \$43.1m compared with \$28m in the corresponding period last year, an increase of 54%. Total revenues during the reported period include a gain of \$809thousand from the realization of assets and investments (same period last year – \$2.7m), as well as a gain of \$9.8m from the appreciation of yielding real estate, compared with \$2.5m in the corresponding period last year).

The Company's share in the affiliates' rental fees income for the second quarter amounted to \$9.5m, as compared with \$4.4m in the same period last year. In the reported period, the Company's share in these revenues amounts to \$20.5m as compared with \$6.0m in the corresponding period last year.

Financing expenses

Company's total financing expenses in the second quarter of 2006 amounted to \$6.9m compared with \$4.3m in the same quarter last year. During the reported period the financing expenses amounted to \$11.6m (corresponding period last year – \$8.8m). The financing expenses in the reported period include \$8.0m in respect of long-term loans obtained from financial institutions abroad for financing the acquisition of yielding assets abroad. These loans are secured by a fixed lien registered on the buildings. The Company provided neither additional guarantees nor collateral in respect thereof. The increase stems mainly from an increase in long-term loans attained for acquiring new assets as well as the effect caused by a higher CPI rise as compared with the increase in the debentures issued to the public.

Net income

Net income for the second quarter of 2006 amounted to \$11.2m as compared with \$4.2m in the same period last year, an increase of 166%. Net income during the reported period amounted to \$13.9m (corresponding period last year – \$8.6m, an increase of 61%).

During the reported period two foreign affiliates which prepare their financial statements in accordance with international accounting standards, including IAS40, based on which yielding real estate is presented at fair value, reported a gain from the appreciation of their yielding properties, as follows: in one company the fair value was determined by an independent valuation, based on yielding real estate market prices while in another company it was determined by actual selling prices. The Company's equity in the appreciation of these properties net, after tax amounts to \$9.8m as compared with \$2.5m in the same period last year. In the second quarter of 2006 the Company recorded a provision of \$203 thousand for the impairment in the value of assets.

Liquidity and financing resources

In the first quarter of 2006 operating activities provided the Company with cash flows totaling \$6.9 thousand, as compared with \$5.3m in the same period last year.

Cash flows used in investment activities

Cash flows to investment activities in the second quarter of 2006, which amounted to \$94.5m, compared with \$54.8m in the same period last year, have been primarily affected by investments in Europe, Canada and USA.

Cash flows provided by financing activities

Cash flows from financing activities in second quarter of 2006, which amounted to \$89.3m, compared with \$50.5m in the same period last year, have been primarily affected by financing investment activity in Europe Canada and USA.

D. FFO (Funds from Operations)

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

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

The FFO in the second quarter of 2006 amounted to \$9.4m as compared with \$7.4m in the same period last year, an increase of 28%.

It should be noted that the FFO:

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

The following FFO computations pertain to the reported periods:

	Six-month period ended June 30,		Three-month period ended June 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	In thousands US dollars				
Net profit	13,882	8,612	11,162	4,182	(*) 26,636
Adjustments:					
Net gain from the sale of assets and investments	(566)	(2,355)	(566)	(11)	(10,359)
Depreciation and amortization	4,636	3,565	2,548	1,857	7,021
Impairment of the assets net of allocated expenses	101	-	101	-	1,766
Adjustments in respect of minority interest in subsidiaries	(244)	(218)	(123)	(110)	(445)
Adjustments in respect of the Company’s equity in affiliates’ earnings (**)	(8,370)	(2,165)	(8,571)	(1,804)	(8,847)
Adjustments in respect of prior years (Regulation 59d).	-	(56)	-	(113)	(56)
Total adjustments	(4,443)	(1,229)	(6,611)	(181)	(10,920)
F.F.O	9,439	7,383	4,551	4,001	15,716

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

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

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

Officers responsible for managing market risks

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

Company's policy and method for managing business risk

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

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

F. Accounting estimates

See directors' report as of December 31, 2005.

G. Subsequent events

- The management agreement of August 2005, based on which Electra Ltd. has rendered the Company management services, was cancelled on August 8, 2006, to take effect after 90 days, on November 7, 2006 and following which the Company would alternatively engage Electra's administration formation independently and directly.
- On August 8, 2006 the Controlling party in the Company, Electra Ltd., announced that the commitment made by Mr. Shlomo Sherf to the Company on August 9, 2005 and pertaining to ERE shares was revoked by mutual consent on August 8, 2006. Starting that date he will not be obliged to vote in ERE's General Meetings along with the Company's stand and to grant Electra Ltd. a first refusal right in the events he sells the Company's shares.

On behalf of the Board of Directors:

Shlomo Sherf
CEO

Gershon Salkind
Chairman of the Board of Directors

August 8, 2006

ELECTRA REAL ESTATE LTD.

APPENDIX
TO THE REPORT OF THE BOARD OF DIRECTORS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2006

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

	Linked to Foreign currency(*)	CPI- linked	Unlinked	Balance	Balance- sheet total
	(in thousand US dollars)				
Cash and cash equivalents	14,553	-	2,677	-	17,230
Short-term deposits	3,565	-	145	-	3,710
Marketable securities	-	-	18,100	-	18,100
Trade accounts receivable	927	-	183	-	1,110
Receivables and other current assets	3,020	5	177	3,219	6,421
Investments in investees	32,271	-	568	81,636	114,475
Other investment	15,695	-	-	-	15,695
Long-term receivables	23,739	-	-	-	23,739
Deferred income taxes	-	-	-	3,348	3,348
Fixed assets, net	-	-	-	306	306
Yielding assets, net	-	-	-	497,514	497,514
Other assets, net	-	-	-	2,041	2,041
Total assets	93,770	5	21,850	588,064	703,689
Short-term bank borrowings to finance yielding assets	29,983	-	3,792	-	33,775
Trade accounts payable	3,923	-	1,295	-	5,218
Payables and other current liabilities	12,379	-	11,400	-	23,779
Long-term loans to finance yielding assets in-					
Israel	-	12,262	-	-	12,262
Britain	33,299	-	-	-	33,299
North America	193,928	-	-	-	193,928
Europe	136,157	-	-	-	136,157
Capital notes	-	-	12	-	12
Debentures	-	79,676	-	-	79,676
Liability from capitalization of management fees to a controlling shareholder	-	-	-	11,445	11,445
Loan from Electra Group companies	26,081	-	-	-	26,081
Loans from minority shareholders in subsidiaries	3,680	-	-	-	3,680
Deferred income taxes	-	-	-	2,646	2,646
Minority interest	-	-	-	1,261	1,261
Total liabilities	439,430	91,938	16,499	15,352	563,219
Net balance sheet amount	(345,660)	(91,933)	5,351	572,712	140,470
Classification of balances linked to the functional currencies of autonomous units	339,743	-	-	-	339,743
Total exposure of assets (liabilities)	(5,917)	(91,933)	5,351	572,712	480,213

ELECTRA REAL ESTATE LTD.

APPENDIX
TO THE REPORT OF THE BOARD OF DIRECTORS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2006

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

	US Dollar	Sterling	Euro	Canadian dollar	Other	Linked to foreign currency
	(in thousand US dollars)					
Cash and cash equivalents	1,503	5,342	5,642	1,731	335	14,553
Short-term deposits	1,517	210	-	1,838	-	3,565
Marketable securities	-	-	-	-	-	-
Trade accounts receivable	155	-	112	660	-	927
Receivables and other current assets	53	17	423	1,884	643	3,020
Investments in investees	9,146	-	18,490	4,635	-	32,271
Other investment	-	15,695	-	-	-	15,695
Long-term receivables	1,895	1,623	8,771	4,753	6,697	23,739
Deferred income taxes	-	-	-	-	-	-
Fixed assets, net	-	-	-	-	-	-
Yielding assets, net	-	-	-	-	-	-
Other assets and net deferred charges, net	-	-	-	-	-	-
Total assets	14,269	22,887	33,438	15,501	7,675	93,770
Short-term bank borrowings to finance yielding assets	9,327	1,072	17,289	2,130	165	29,983
Trade accounts payable	-	-	2,231	1,692	-	3,923
Payables and other current liabilities	688	5,173	2,682	3,595	241	12,379
Long-term loans to finance yielding assets in-						
Israel	-	-	-	-	-	-
Britain	-	33,299	-	-	-	33,299
North America	57,259	-	-	136,669	-	193,928
Europe	1,100	-	117,672	-	17,385	136,157
Capital notes	-	-	-	-	-	-
Debentures	-	-	-	-	-	-
Liability from capitalization of management fees to a controlling shareholder	-	-	-	-	-	-
Loan from Electra Group companies	-	-	3,773	22,308	-	26,081
Loans from minority shareholders in subsidiaries	-	49	-	3,631	-	3,680
Deferred income taxes	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Total liabilities	68,374	39,593	143,647	170,025	17,791	439,430
Net balance sheet amount	(54,105)	(16,706)	(110,209)	(154,524)	(10,116)	(345,660)
Classification of balances linked to the functional currencies of autonomous units	48,282	16,706	110,209	154,524	10,023	339,743
Total exposure of assets (liabilities)	(5,823)	-	-	-	(93)	(5,917)

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

Re: Special review report on the unaudited condensed interim consolidated financial statements of Electra Real Estate Ltd. at June 30, 2006 and for the six-month period then ended

At your request, we have reviewed the condensed interim consolidated balance sheet of Electra Real Estate Ltd. ("the Company") and its subsidiaries at June 30, 2006, and the related condensed interim consolidated statements of operations, changes in shareholders' equity and cash flows for the six and three month periods then ended (in the Hebrew language, not included herein) and have issued our accountants review report thereon dated August 8, 2006.

The aforementioned financial statements (not presented separately herein) were prepared in the Hebrew language in reported NIS (see also Note 1), in accordance with pronouncements issued by the Israeli Accounting Standards Board.

As noted in our aforementioned review report, we were furnished review reports of other accountants concerning the review of interim financial statements of consolidated subsidiaries whose assets constitute 73% of the total consolidated balance at June 30, 2006 and revenues 63% and 62% of the consolidated total for the six and three month periods then ended. We did not review the financial statements of investee companies, in which the Company's investment as of June 30, 2006 amounted to \$77,722 thousand and the Company's share in their results amounted to \$6,452 and \$5,275 thousand for the six and three month periods then ended. The financial statements of those companies were reviewed by other accountants.

As described in Note 1, the accompanying English-language condensed interim consolidated financial statements in US dollars represent a translation of the above-mentioned reported NIS financial statements into US dollars in condensed form solely for the convenience of the reader ("convenience translation"), using the representative dollar exchange rate in effect on June 30, 2006. Comparative figures for the six and three month periods ended June 30, 2005 and for the year ended December 31, 2005 represent a translation of the original reported NIS values of the respective period, using the representative dollar exchange rate in effect on June 30, 2006. These condensed interim financial statements do not include all the disclosures necessary for presentation of the financial statements in conformity with generally accepted accounting principles.

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

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

Tel-Aviv, August 23, 2006

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

	June 30,		December 31,
	2006	2005	2005
	In thousands		In thousands
	(unaudited)		
ASSETS			
Current assets			
Cash and cash equivalents	17,230	6,745	15,275
Short-term deposits	3,710	12,351	2,681
Marketable securities	18,100	-	22,517
Trade accounts receivable	1,110	1,148	961
Receivables and other current assets	6,421	5,650	7,279
	<u>46,571</u>	<u>25,894</u>	<u>48,713</u>
Investments, loans and long-term receivables			
Loans and long-term receivables	23,739	6,308	25,182
Investments in affiliates	114,475	60,449	85,057
Other investment	15,695	-	15,315
Deferred income taxes	3,348	-	2,507
	<u>157,257</u>	<u>66,757</u>	<u>128,061</u>
Yielding assets, net in -			
Israel	121,579	114,567	115,550
Britain	40,143	100,087	51,265
North America	191,902	164,670	173,183
Europe	143,890	14,664	58,189
	<u>497,514</u>	<u>393,988</u>	<u>398,187</u>
Fixed assets, net	<u>306</u>	<u>284</u>	<u>135</u>
Other assets, net	<u>2,041</u>	<u>5,225</u>	<u>6,309</u>
	<u>703,689</u>	<u>492,148</u>	<u>581,405</u>

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

ELECTRA REAL ESTATE LTD.

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

	<u>June 30,</u>		<u>December 31,</u>
	<u>2 0 0 6</u>	<u>2 0 0 5</u>	<u>2 0 0 5</u>
	<u>In thousands</u>		<u>In thousands</u>
	<u>(unaudited)</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans to finance yielding properties (including current maturities of long-term loans)	33,775	58,754	32,004
Trade accounts payable	5,218	1,696	2,059
Payables and other current liabilities	23,779	8,589	16,735
	<u>62,772</u>	<u>69,039</u>	<u>50,798</u>
Loans for financing yielding assets in -			
Britain	33,299	90,355	42,794
North America	193,928	146,713	174,576
Europe	136,157	9,530	61,649
Israel	12,262	-	-
	<u>375,646</u>	<u>246,598</u>	<u>279,019</u>
Long-term liabilities			
Capital notes	12	12	12
Debentures	79,676	-	81,458
Liability of management fees to a controlling party	11,445	-	8,925
Loan from Electra Group companies	26,081	80,700	25,142
Loans from shareholders in subsidiaries	3,680	3,086	3,486
Deferred income taxes	2,646	2,462	2,479
	<u>123,540</u>	<u>86,260</u>	<u>121,502</u>
Minority interest	<u>1,261</u>	<u>1,374</u>	<u>1,269</u>
Shareholders' equity	<u>140,470</u>	<u>88,877</u>	<u>128,817</u>
	<u>703,689</u>	<u>492,148</u>	<u>581,405</u>

Approval date of the financial statements

Tel - Aviv, August 8, 2006

Zvi Duskin
CFO

Shlomo Sherf
CEO

Gershon Salkind
Chairman of the
Board of Directors

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

	Six-month period ended June 30,		Three-month period ended June 30,		Year ended December 31,
	2006	(**)2005	2006	(**)2005	(**)2005
	In thousands				In thousands
	(unaudited)				
Revenues					
Rental fees, management fees and others	29,805	24,499	15,382	12,241	50,236
Company's share in income of affiliates, net	13,301	3,445	11,567	2,531	13,645
Realization of investments and yielding assets	809	2,682	809	-	14,523
Total revenues	<u>43,915</u>	<u>30,626</u>	<u>27,758</u>	<u>14,772</u>	<u>78,404</u>
Costs and Expenses					
Operating expenses and maintenance fees	10,497	7,459	5,205	3,455	17,006
Depreciation and amortization	4,393	3,565	2,305	1,857	8,984
General and administrative expenses	2,784	973	2,028	576	(*) 3,785
Financing expenses, net	11,635	8,768	6,899	4,313	18,514
Total costs and expenses	<u>29,309</u>	<u>20,765</u>	<u>16,437</u>	<u>10,201</u>	<u>48,289</u>
Pre-tax income	14,606	9,861	11,321	4,571	30,115
Income taxes	743	1,237	215	393	3,411
Income after taxes on income	13,863	8,624	11,106	4,178	26,704
Minority interest in income of subsidiaries, net	19	(12)	56	4	(68)
Net income for the period	<u>13,882</u>	<u>8,612</u>	<u>11,162</u>	<u>4,182</u>	<u>26,636</u>
Earnings (loss) per share, net - in dollars:					
Basic	0.59	0.43	0.47	0.21	(*)1.25
Diluted	0.58	0.43	0.47	0.21	(*)1.25
Number of shares used in EPS computations (in thousands)					
Basic	23,600	20,000	23,600	20,000	21,351
Diluted	23,742	20,000	23,880	20,000	21,351

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

(**) Reclassified – see Note 2.E.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

For the six month period ended June 30, 2006

	Share Capital	Additional paid-in capital	Cumulative Balance of stock-based compensation and proceeds from the issuance of options	Capital reserve from foreign currency translation adjustment	Capital reserve arising from transactions with a controlling party	Retained earnings	Total
	(In thousand U.S. dollars)						
	(Unaudited)						
Balance - January 1, 2006	(*)	71,978	1,850	3,641	(6,694)	58,042	128,817
Capital reserve from capitalization of management fees to a controlling party	-	-	-	-	(1,889)	-	(568)
Foreign currency translation adjustment of autonomous units	-	-	-	(568)	-	-	(1,889)
Expenses due to options granted to officers	-	-	228	-	-	-	228
Net income for the period	-	-	-	-	-	13,882	13,882
Balance – June 30, 2006	(*)	71,978	2,078	3,073	(8,583)	71,924	140,470

For the six month period ended June 30, 2005

	Share Capital	Additional paid-in capital	Cumulative Balance of stock-based compensation and proceeds from the issuance of options	Capital reserve from foreign currency translation adjustment	Capital reserve arising from transactions with a controlling party	Retained earnings	Total
	(In thousand U.S. dollars)						
	(Unaudited)						
Balance - January 1, 2005	(*)	44,708	-	3,669	-	31,633	80,010
Foreign currency translation adjustment of autonomous units	-	-	-	255	-	-	255
Net income for the period	-	-	-	-	-	8,612	8,612
Balance – June 30, 2005	(*)	44,708	-	3,924	-	40,245	88,877

(*) Less than \$1 thousand.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

For the three month period ended June 30, 2006

	Share Capital	Additional paid-in capital	Cumulative Balance of stock-based compensation and proceeds from the issuance of options	Capital reserve from foreign currency translation adjustment	Capital reserve arising from transactions with a controlling party	Retained earnings	Total
(In thousand U.S. dollars)							
(Unaudited)							
Balance - April 1, 2006	(*)	71,978	1,964	5,277	(7,046)	60,762	132,935
Capital reserve from capitalization of management fees to a controlling party	-	-	-	-	(1,537)	-	(2,204)
Foreign currency translation adjustment of autonomous units	-	-	-	(2,204)	-	-	(1,537)
Expenses due to options granted to officers	-	-	114	-	-	-	114
Net income for the period	-	-	-	-	-	11,162	11,162
Balance – June 30, 2006	(*)	<u>71,978</u>	<u>2,078</u>	<u>3,073</u>	<u>(8,583)</u>	<u>71,924</u>	<u>140,470</u>

For the three month period ended June 30, 2005

	Share Capital	Additional paid-in capital	Cumulative Balance of stock-based compensation and proceeds from the issuance of options	Capital reserve from foreign currency translation adjustment	Capital reserve arising from transactions with a controlling party	Retained earnings	Total
(In thousand U.S. dollars)							
(Unaudited)							
Balance - April 1, 2005	(*)	44,708	-	3,333	-	36,063	84,104
Foreign currency translation adjustment of autonomous units	-	-	-	591	-	-	591
Net income for the period	-	-	-	-	-	4,182	4,182
Balance – June 30, 2005	(*)	<u>44,708</u>	<u>-</u>	<u>3,924</u>	<u>-</u>	<u>40,245</u>	<u>88,877</u>

(*) Less than \$1 thousand.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

Year ended December 31, 2005

	Share Capital	Additional paid-in capital	Cumulative Balance of stock-based compensation and proceeds from the issuance of options	Capital reserve from foreign currency translation adjustment	Capital reserve arising from transactions with a controlling party	Retained earnings	Total
(In thousand U.S. dollars)							
Balance - January 1, 2005	(***)	44,708	-	3,669	-	31,633	80,010
Issuance of shares (**)	(***)	27,270	-	-	-	-	27,270
Issuance of stock options (**)	-	-	1,679	-	-	-	1,679
Capital reserve from capitalization of management fees to a controlling party	-	-	-	-	(6,694)	-	(6,694)
Capital reserve in respect of financing expenses to a controlling party	-	-	-	-	-	(227)	(227)
Foreign currency translation adjustment of autonomous units	-	-	-	(28)	-	-	(28)
Expenses due to options granted to officers	-	-	(*)171	-	-	-	171
Net income for the period	-	-	-	-	-	(*)26,636	26,636
Balance - December 31, 2005	(***)	71,978	1,850	3,641	(6,694)	58,042	128,817

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

(**) Net of issuance expenses.

(***) Less than \$1 thousand.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

	Six-month period ended June 30,		Three-month period ended June 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	In thousands (unaudited)				In thousands
Cash Flow - Operating Activities:					
Net income	13,882	8,612	11,162	4,182	(*) 26,636
Adjustments required to present cash flows from operating activities (Appendix A)	(6,991)	(3,318)	(7,274)	(1,712)	(*)(13,549)
Net cash provided by operating activities	<u>6,891</u>	<u>5,294</u>	<u>3,888</u>	<u>2,470</u>	<u>13,087</u>
Cash Flows - Investing Activities:					
Initial full consolidation of a subsidiary that was proportionately consolidated in the past (Appendix C)	(2,223)	-	(2,223)	-	-
Realization of (investment in) marketable securities, net	4,880	-	5,991	-	(22,395)
Long-term loans granted	(547)	(898)	(59)	(857)	(5,863)
Collection of long-term debts (also from affiliated company)	37	45	30	32	1,373
Proceeds from the sale of investees that were proportionately consolidated (Appendix B)	2,843	5,925	2,843	-	16,051
Realization of (investment in) short-term deposits, net	(1,264)	(9,505)	(447)	(9,848)	246
Investment in investee companies including deposit designated to invest in investee	(11,458)	(42,100)	(11,458)	(17,665)	(71,541)
Deposits designated for yielding assets, net	(9,744)	-	180	-	(14,402)
Proceeds from disposition of yielding properties	-	-	-	-	32,191
Acquisition and construction of yielding assets	(76,706)	(7,506)	(21,417)	(3,042)	(58,010)
Acquisition of fixed assets and other assets	(290)	(741)	(139)	(365)	(1,232)
Net cash used in investing activities	<u>(94,472)</u>	<u>(54,780)</u>	<u>(26,699)</u>	<u>(31,745)</u>	<u>(123,582)</u>
Cash Flows - Financing Activities:					
Dividend paid to minority shareholders in a subsidiary	-	-	-	-	(128)
Issuance of debentures and options for debentures, net of related expenses	-	-	-	-	78,389
Issuance of stock options, net of related expenses	-	-	-	-	1,679
Issuance of shares, net of issuance expenses	-	-	-	-	27,269
Receipt of long-term loans.	90,595	29,399	33,858	27,920	90,249
Repayment of long-term loans	(1,807)	(9,077)	(997)	(8,460)	(34,219)
Receipt (repayment) of loans and capital notes from the Electra Group companies, net	616	9,779	319	2,280	(49,182)
Receipt of loans and capital notes from minority shareholders in a consolidated subsidiaries, net	162	100	56	20	309
Receipt (repayment) of short-term bank borrowings, net	(215)	20,278	(9,971)	4,279	5,689
Net cash provided by financing activities	<u>89,351</u>	<u>50,479</u>	<u>23,265</u>	<u>26,039</u>	<u>120,055</u>
Translation differences relating to cash balances in autonomous units	<u>185</u>	<u>(93)</u>	<u>(33)</u>	<u>2</u>	<u>(130)</u>
Increase (decrease) in cash and cash equivalents	<u>1,955</u>	<u>900</u>	<u>421</u>	<u>(3,234)</u>	<u>9,430</u>
Cash and cash equivalents at beginning of period	<u>15,275</u>	<u>5,845</u>	<u>16,809</u>	<u>9,979</u>	<u>5,845</u>
Cash and cash equivalents at end of period	<u>17,230</u>	<u>6,745</u>	<u>17,230</u>	<u>6,745</u>	<u>15,275</u>

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

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

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

	Six-month period ended June 30,		Three-month period ended June 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	In thousands				In thousands
	(unaudited)				
Appendix A - Adjustments to reconcile net income to net cash provided by operating activities:					
Expenses (income) not involving cash flows:					
Company's share in earnings of investees, net	(13,301)	(3,445)	(11,567)	(2,531)	(13,645)
Minority interest in earnings of subsidiaries, net	(19)	12	(56)	(4)	68
Depreciation and amortization	4,393	3,565	2,305	1,857	8,984
Change in value of long-term receivables and liabilities, net (including interest to charge the parent company)	395	762	881	196	1,593
Deferred income taxes	(25)	673	(163)	250	495
Capital gain from realization of investments and sales of assets	(809)	(2,682)	(809)	-	(14,523)
Gain from marketable securities	(463)	-	(102)	-	(121)
Recording of expenses in connection with options which were granted to officers	229	-	114	-	(*)171
Changes in assets and liabilities:					
Trade accounts receivables	(148)	(825)	903	130	(634)
Receivables and other current assets	1,285	(526)	700	756	(1,503)
Trade accounts payables	293	101	(859)	1,056	368
Payables and other current liabilities	1,179	(953)	1,379	(3,422)	5,198
	<u>(6,991)</u>	<u>(3,318)</u>	<u>(7,274)</u>	<u>(1,712)</u>	<u>(13,549)</u>
Appendix B - Proceeds from the sale of an investee that was proportionately consolidated					
Assets and liabilities at acquisition:					
Net working capital (excluding cash)	(191)	(14)	(191)	-	(579)
Yielding assets, net	12,138	19,371	12,138	-	46,125
Long-term liabilities	(9,913)	(16,114)	(9,913)	-	(36,089)
Profit from investment realization	809	2,682	809	-	6,594
	<u>2,843</u>	<u>5,925</u>	<u>2,843</u>	<u>-</u>	<u>16,051</u>
Appendix C - Initial full consolidation of a subsidiary that was proportionately consolidated in the past					
Assets and liabilities at acquisition:					
Net working capital (excluding cash)	157	-	157	-	-
Yielding assets, net	(19,321)	-	(19,321)	-	-
	(615)	-	(615)	-	-
Long-term liabilities	(1,633)	-	(1,633)	-	-
Profit from investment realization	19,189	-	19,189	-	-
	<u>(2,223)</u>	<u>-</u>	<u>(2,223)</u>	<u>-</u>	<u>-</u>

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

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - FINANCIAL STATEMENTS IN REPORTED VALUES

These interim financial statements are presented in US dollars, derived from convenient translation of the financial statements prepared in reported NIS, in accordance with pronouncements issued by the Israeli Accounting Standard Board, into US dollars by using the conversion rate prevailing on June 30, 2006 (\$1.00= NIS 4.44).

The accompanying English-language condensed interim consolidated financial statements in US dollars represent a translation of the above-mentioned reported NIS financial statements into US dollars in condensed form solely for the convenience of the reader ("convenience translation"), using the representative dollar exchange rate in effect on June 30, 2006. Comparative figures for the six and three month periods ended June 30, 2005 and for the year ended December 31, 2005 represent a translation of the original reported NIS values of the respective period, using the representative dollar exchange rate in effect on June 30, 2006. These condensed interim financial statements do not include all the disclosures necessary for presentation of the financial statements in conformity with generally accepted accounting principles.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

- A.** The interim financial statements are prepared in conformity with accounting principles generally accepted for interim financial statements, as established in Standard 14 of the Israel Accounting Standards Board and in accordance with the Securities Regulations, chapter D (Periodic and Immediate Reports), 1970.

These interim financial statements prepared at June 30, 2006 and for the six and three month periods then ended, should be read in conjunction with the Company's audited 2005 annual financial statements.

Except to the mentioned Notes B, D and E below, the majority of the accounting policies in these interim financial statements were prepared consistently to the audited 2005 annual financial statements.

- B. New accounting standards and their impact**

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Accounting Standard No.22 - Financial Instruments: Disclosure and Presentation (cont.)

The standard's implementation has caused the Company to classified deferred expenses incurred in attaining financing contracts and debenture-issuance (jointly amounting – on the balance- sheet date - to \$5.0m) as a reduction in loan and debenture balances. The comparative figures on December 31, 2005 and June 30, 2005 have not been reclassified, in accordance with the standard's transitional provisions.

Accounting Standard No.24 - Stock-Based Payment

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

As for stock-based transactions cleared by equity instruments, the standard requires the measurement of merchandise and/or services received as well as the parallel increase in shareholders' equity, directly, based on their fair value, unless it is not possible to reliably estimate their fair value. In this case, it is necessary to measure the fair value and the parallel increase in shareholders' equity, indirectly, in relation to the fair value of the granted equity instruments. As for transactions with employees and others providing similar services - the standard requires to measure the fair value of the equity instruments at time of grant.

The new standard is being implemented for periods that commence on January 1, 2006 or subsequent thereto. The transitional provisions relating to stock-based transactions that are settled by equity instruments state that this standard should be implemented for all grants taking place subsequent to March 15, 2005 and not yet vested by January 1, 2006. Since the standard is being implemented for periods that commence on January 1, 2006, expenses in connection with grants which were made after March 15, 2005 were not recorded in the financial statements for the year 2005, but the financial statements for the year 2005 were retroactively adjusted for the purpose of including the expenses which are relative to that period with administrative and general expenses- see Note 2.D below.

The Company estimates that implementation of the new standard will increase its general and administrative expenses by a pre-tax amount of \$1.1m over the vesting period of the options granted to its officers (between 2006 - 2010). Accordingly, the first quarter of 2006 has reflected such an expense of \$225 thousand.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Accounting Standard No.21 - Earnings per Share

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

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

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

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

The Standard applied to financial statements for periods starting January 1, 2006 and thereafter. Based on the standard, the Company retroactively implemented its provisions pertaining to comparative figures of earnings per share relating to previous periods.

Standard No.25 - Revenues

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

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

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

The Standard applied to financial statements for periods starting January 1, 2006 and Thereafter. Assets and liabilities included in the balance sheet on December 31, 2005 in amounts different than those recognized before this standard's implementation have been adjusted on January 1,2006 to the amounts recognized based on this standard, with the effect of this adjustment recognized as a cumulative effect of an accounting change. The implementation of the provisions of the new standard had no effect on the financial condition, operating results and cash flows of the Company.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

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

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

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

Comparative figures for prior years covering periods before the Effective Date should not be restated and, starting on the Effective Date, the positive goodwill presented in the balance sheet on December 31, 2005 has no longer been amortized, including the one presented in the investment account of an affiliate. Subsequently, the company should periodically examine the goodwill's net book value, as noted above. The negative goodwill presented in the 2005 annual financial statements will be deleted at the start of the period, to be fully allocated to the opening balance of retained earnings at that time. Moreover, starting then, the amortization of an intangible asset having undefined useful life stemming from the acquisition of an investee and included in the 2005 annual financial statements will be discontinued, with its value re-examined accordingly.

The implementation of the provisions of the new standard had no effect on the financial condition, operating results and cash flows of the Company.

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

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

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

	<u>June 30,</u>		<u>December 31,</u>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
CPI (in points)	187.92	181.64	185.05
<u>In NIS:</u>			
US dollar	4.44	4.574	4.603
Pound sterling	8.1376	8.1966	7.9406
Hungarian forint	0.019953	0.0222	0.021492
Polish zlot	1.3955	1.367	1.4111
Canadian dollar	3.9998	3.7110	3.9642
Euro	5.6435	5.5270	5.4465
Swiss franc	3.6013	3.5663	3.4985
Japanese yen	0.038689	0.0413	0.039211

	<u>Six-month period</u>		<u>Three-month period</u>		<u>Year ended</u>
	<u>ended June 30,</u>		<u>ended June 30,</u>		<u>December 31,</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
Change in exchange rate during the period then ended (in %):					
CPI	1.55	0.50	0.97	1.10	2.39
US dollar	(3.54)	6.17	(4.82)	4.88	6.85
Pound sterling	2.48	(1.33)	0.13	(0.11)	(4.42)
Hungarian forint	(7.16)	(7.15)	(5.95)	(2.68)	(10.12)
Polish zlot	(0.01)	(5.11)	(0.03)	(1.21)	(2.05)
Canadian dollar	0.90	3.70	(0.50)	3.2	10.77
Euro	3.62	(5.95)	(0.33)	(2.16)	(7.32)
Swiss franc	2.94	(6.31)	0.40	(2.19)	(8.09)
Japanese yen	(1.33)	(1.66)	(2.61)	1.30	(6.65)

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

The Company has retroactively adjusted the financial statements as of December 31, 2005 and for the year ended on that date in order to reflect the recording of expenses in connection with the granting of share options to officers, in accordance with Standard 24 of the Israeli Accounting Standards Board.

In addition, the earnings-per-share data has been adjusted in order to retroactively reflect the noted correction as well as the provisions of Standard No. 21 of the Israeli Accounting Standards Board.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Effect of the adjustment on the financial statements:

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

	Previously Reported	Change	Currently presented
	(in thousand US dollars)		
General and administrative expenses	<u>3,614</u>	<u>171</u>	<u>3,785</u>
Net income	<u>26,807</u>	<u>(171)</u>	<u>26,636</u>
Earnings per share (basic), net (in dollars)	<u>1.25</u>	<u>(*)-</u>	<u>1.25</u>
Earnings per share (diluted), net (in dollars)	<u>1.25</u>	<u>(*)-</u>	<u>1.25</u>

(*) Less than \$1 thousand.

Statement of changes in shareholders' equity for the year ended December 31, 2005

	Previously Reported	Change	Currently presented
	(in thousand US dollars)		
Retained earnings	<u>58,213</u>	<u>(171)</u>	<u>58,042</u>
Cumulative balance representing stock- based proceeds from the issuance of options	<u>1,679</u>	<u>171</u>	<u>1,850</u>
Shareholder's Equity	<u>128,817</u>	<u>-</u>	<u>128,817</u>

E. Reclassification

Management has re-examined the nature of financial statement presentation and preparation and decided to include the operating items by the "one-stage" presentation since – in its opinion – this method is most suitable for the Company, which is engaged in investments and holdings and whose assets consist primarily of investments in investees and real estate for lease.

This format, although different than the one required by the Israeli Securities regulations (Preparation of Annual Financial Statements), 1993, is permitted by Regulation 8 therein.

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

NOTE 3 - ESSENTIAL EVENTS DURING THE BALANCE PERIOD

- A. In January 2006 the Company concluded, through a held partnership, a transaction for acquiring 70% of the rights in an office building in Hamburg, Germany. The asset, a six-story office building of totaling 29,200 sq. m plus about 200 indoor parking spaces, was acquired (100%) for a gross amount of €70.3m (\$86.3m), plus related expenses totaling €6.5m (\$8.0m). The building is entirely leased to four tenants for various periods expiring between 2011 and 2015. Net annual rental fees (100%) amount to €5.25m (\$6.44m), linked to a mechanism providing an increment of 2% per annum payable at the beginning of the year. The average net annual rental fees (100%) amount to €5.5m (\$6.8m). All management and maintenance expenses are paid by the tenants.
A German financial institution provided a loan of €63.5m (\$78.0m), at an annual interest rate of 3.79% for a period of seven years. The loan is secured by a non-recourse fixed first-tier lien on the assets and its income. During the reported period the interest rate was fixed at 5.21%.
- B. In March 2006 the Company acquired 70% in a project under construction in the city of Halle, Germany, estimated to cost about €14.4m (\$18.5m- 100%) plus an additional €0.5m (\$0.6m). The constructed six-storey, 8,800 sq. m.- building will consist of 400 stores and be fully occupied by Dell Computers on a 10-year lease beginning with the end of the construction work (estimated completion date – October 2006). The annual net rental fees, which amount to €1.21m (\$1.6m – 100%), incorporate a mechanism allowing for an annual increase of 1.8% per annum at the beginning of each year, with all current management and maintenance fees paid by the tenant. The average net annual rental fees (100%) amount to €1.3m (\$1.7m).
A German financial institution provided of €12.1m (\$15.6m) for financing the entire project at annual interest of 5.2%, repayable in seven years following project completion.
- C. In April 2006 a wholly owned subsidiary acquired 40% of the rights in a yielding asset located in Atlanta, USA, at a cost of \$40m, plus related expenses of \$1.4m. The asset, situated in the city's business district, consists of an 18-storey office buildings earmarked for historical preservation, covers 40,500 sq. m. along with 625 underground parking spaces. The building, currently enjoying an occupancy rate of 78%, yields gross annual rental fees of \$6.7m - net of related management and maintenance expenses - \$2.9m. The building is leased to various tenants for different periods, with Sun Trust constituting the major tenant with a lease expiring in December 2010.

To finance the transaction, a US financial institution provided a 10-year loan of \$30.5m bearing a fixed interest rate of 6.33%. The loan is secured by a non-recourse fixed first-tier lien on the assets and on its income.
- D. During the reported period two foreign affiliates which prepare their financial statements in accordance with international accounting standards, including IAS 40, based on which yielding real estate is presented at fair value, reported a gain from the appreciation of their yielding properties, as follows: in one company the fair value was determined by an independent valuation, based on yielding real estate market prices while in another company it was determined by actual selling prices (see Note 4.b below). The Company's equity in the appreciation of these properties, which totals an after-tax amount \$9.8m, has been reported in the second quarter of 2006 as "equity in earnings of affiliates".
- E. During July and August 2006 the Company reached an understanding with its lending banks for extending its long-term credit line of \$70.7m, subject to the Company's compliance with agreed terms and, accordingly, these amounts were presented as long-term loans.

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

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

- F. In May 2006 a wholly owned subsidiary acquired the remaining 30% of the rights in a yielding property in Toronto, Canada, following the purchase of 70% in January 2004 at a property value of C\$43m. The 2006 purchase of 30% at C\$21.3m (\$19.4m) was carried out at a property value of C\$71m. The purchase-related expenses amounted to C\$0.8m (\$721 thousand). The 25-storey (33,600 sq m.) building is located in the center of the city's business district and is mostly leased to the Government of Canada (50%) and Zurich Insurance (30%) by leases expiring in October 2015 and January 2014, respectively.

In light of the meaningful increases in the property's value the Company refinanced it with a 10-year loan of C\$57m (\$51.8m) at a fixed interest rate of 5.68%. The loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

- G. In May 2006 the Company concluded, through a wholly owned foreign subsidiary, a transaction for acquiring in stages 45% of rights in eight shopping malls (125,000 sq. m), five of which are located in Germany (Berlin, Munich and Nuremberg) and three in Switzerland (Zurich, Biel and Lucerne). The purchase cost of the rights (100%) amounted to €203.4m (\$270m), plus related expenses of €11.6m (\$14.9m). All the eight malls are fully leased to Hornbach Ltd. (a leading Do-It-Yourself retailer) for a 15-year period, starting on each building's occupancy date, with a renewal option. The gross annual rental fees expected from these malls amounts to €12.8m (\$16.4m) and they have a mechanism for adjusting them to the CPI. All management and maintenance fees are payable by the lessee.

At the first stage the Company acquired the rights to three German malls, out of eight (in Berlin and Nuremberg) at a cost of €53.1m (\$67.8m) plus related expenses of €4.5m (\$5.7m). The remaining malls, currently in various construction stages, will be acquired within the framework agreement upon completion of construction and with the beginning of rental payments (estimated for the second half of 2007 until the end of the first half of 2008).

The Company obtained a credit line of €182.5m (\$225 thousand) at an expected average interest rate of 4.5%. The five-year, non-recourse loan for the first three centers, which amounted to €48m (\$61m) at a fixed rate of 5.18%, is secured by a first-tier lien on the assets and their income.

- H. In May 2006 a subsidiary acquired 70% of the rights in a yielding asset in Switzerland at a cost of SFr 24.7m (\$19.8m), including related expenses. The asset, a five-storey building, is located in Zurich, Switzerland and it consists of 13,000 sq. m. and 50 underground parking spaces. It is leased entirely to Phillips Ltd. by a lease expiring in May 2011. The lessee agreed to renovate the asset at a cost of SFr 6m. The net annual rental fees (100%) amount to SFr 1.7m (\$1.4m), with all management and maintenance fees paid by the lessee. A foreign financial institution provided a five-year loan of SFr 19.3m (\$15.5m) for financing the entire transaction at a fixed interest rate of 4.05%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

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

NOTE 4 - SUBSEQUENT EVENTS

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

A US financial institution provided a 10-year loan of \$32m (NIS 140.8m) for financing the entire transaction at a fixed interest rate of 6.14%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

- B. In July 2006 a foreign affiliate concluded a sale of the shares of the company holding rights in seven yielding properties in Germany (the western side), which are leased to a subsidiary of Deutsch Telecom. The Company holds 40% of the rights and their sale reflects a 100% asset value of €334m (\$421m). The cost of the rights which acquired in April 2005 was of €282m (\$356m) including related expenses. The pre-tax capital gain stemming from the sale of these shares amounted to \$11.9m. The affiliate, which prepares its financial statements in conformity with international accounting standards, including IAS 40 pursuant to which yielding real estate is presented at fair value, included in the statement of operations for the reported period a gain from asset appreciation based on the noted selling price (see note 3.d above).

- C. In July 2006 a wholly owned subsidiary acquired 65% of the rights in a yielding property in Zurich, Switzerland at a (100%) cost of SFr 109m (\$88.4m), plus related expenses of SFr 4.8m (\$3.9m). The asset, a building of 30,800 sq. m. is used as the telecommunication center of Swisscom Ltd., the country's national telecom company and is entirely leased by a 20-year agreement expiring March 2026, with an option to renew it for a period of 15 years (until 2041). The gross annual rental fees (100%) amount to SFr 6m (\$4.9m) (net of management and maintenance expenses- SFr 5.75m (\$4.7m). The management and maintenance fees, which are payable by the lessee, are 80% linked to the Swiss CPI at the beginning of every year.

A foreign financial institution provided a seven-year loan of SFr 98.1m (\$79.5m) for financing the entire transaction at a variable interest rate of 2.5%, with a CAP maximum of 4.35%. This loan is secured by a non-recourse fixed first-tier lien on the assets and its income.

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

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

NOTE 5 - GEOGRAPHICAL SEGMENTS

Consolidated data, by operating segments:

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

	<u>Israel</u>	<u>Europe</u>	<u>North America</u>	<u>Total</u>
	(in thousand US dollars)			
Six month period ended June 30, 2006:				
Segment revenues	4,387	16,286	23,242	43,915
Segment profit	(1,143)	9,164	6,585	14,606
Six month period ended June 30, 2005:				
Segment revenues	4,006	10,398	16,222	30,636
Segment profit	1,149	5,720	2,992	9,861
Three month period ended June 30, 2006:				
Segment revenues	2,147	11,686	13,925	27,758
Segment profit	(1,839)	7,948	5,212	11,321
Three month period ended June 30, 2005:				
Segment revenues	1,916	4,579	8,277	14,772
Segment profit	540	2,299	1,732	4,571
Year ended December 31, 2005:				
Segment revenues	8,347	35,136	34,921	78,404
Segment profit	(*) (3,226)	26,155	7,186	30,115

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

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

NOTE 6 - PROFORMA FINANCIAL STATEMENTS

In August 2005 the Company engaged with its parent company in an agreement constituting an addendum to the existing management agreement in effect between the parties, along with another agreement according to which the Company would proportionately participate in the management fees paid by the parent company to Elco (see Notes 23.f and 23.g to the annual financial statements). The effect on the consolidated statement of operations during the reported periods is presented below (assuming that the abovementioned agreements were in effect during these periods):

	Six -month period ended June 30, 2 0 0 5	Three-month period ended June 30, 2 0 0 5	Year ended December 31, 2 0 0 5
	In thousands US dollars (unaudited)	In thousands US dollars (unaudited)	In thousands US dollars
Net income as previously reported	8,612	4,182	(*) 26,636
An addition to the management fees - proforma	(1,009)	(468)	(1,026)
Tax effect	343	159	282
Net income - proforma	<u>7,946</u>	<u>3,873</u>	<u>25,892</u>
Earnings per share (in dollars):			
Basic and Diluted	<u>0.40</u>	<u>0.19</u>	<u>1.21</u>

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