

ELECTRA REAL ESTATE LTD.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2009
(CONVENIENCE TRANSLATION INTO U.S. DOLLARS)
(UNAUDITED)

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ELECTRA REAL ESTATE LTD.

**REPORT OF THE BOARD OF DIRECTORS
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 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 of nine months ended September 30, 2009. (Hereinafter - "Report period")

This report should be read in context with the Company's annual financial statements (including its Report of the Board of Directors as of December 31, 2008).

The Company's activities are conducted through the Company and its subsidiaries. See also the Report on the Business Description of the Company as of December 31, 2008.

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, 107 assets including 97 yielding assets and 10 assets in various stages of development and construction as well as 9.9% in 58 hotels across Britain, as follows:

| Country | Yielding assets | Nature of asset |
|----------------|------------------------|--|
| Israel | 12 | 7 Yielding assets and 5 assets under construction |
| Britain | 4 58 | Yielding assets Hotels (Company's share- 9.9%) |
| Canada | 16 | 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 1,130,000 sq. meters., with another 470,000 sq. meters. Of parking space.

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

Economic environment changes

During 2008 and the first quarter of 2009 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 an 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 the second and third quarter of year 2009 it looked like the climax of the global financial crisis has past but there is no certainty of the consequences from the realistic crisis that still exists in Israel and around the world.

However, whereas the events that have recently taken place in the capital markets and financial markets in Israel and worldwide do not come within the definition of a specific one-time event, but rather as recurring events with wide repercussions, the Company does not have the ability, at this point, to assess how the financial crisis that has hit the world economy would, 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.

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, due to worsen in terms for credit recruitment, due to 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 six 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's value is approximately \$ 23.8 million and has been partly financed by a long term loan which was received from the bank amounting to \$ 19.6 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.

Transactions after the period:

- 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 company doesn't expect to recognize a significant profit from this sale since most of the profit was recognized in previous periods under the fair value adjustment of the sold asset.

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, 2008).

As of September 30, 2009, Electech operates in the United States, Germany, Holland, Switzerland, Belgium, 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.

Canada

At the balance-sheet date, through its foreign subsidiaries, the company holds rights in 16 commercial buildings in Canada including one logistic center, at various rates ranging from 55% to 100% in lease contracts for periods which ends between 2009 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 21.4 million Canadian Dollars (approximately \$ 19.4 million). The corporation is working for paying this loan in a way of refinancing.

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 2009 and 2022 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 decreased 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, 52 buildings at a shareholding rate of between 50% and 100% in rental contracts ending in the years 2009-2033. An additional 8 properties held through affiliates at rate of 42.5%- 45%.

Transactions during the period:

- January 2009 – Electech acquired 45% of companies which hold 2 shopping centers in Hornbach, Holland and one 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 paragraphs 4 (C) in the Review report of the Company as of September 30, 2009.
- February 2009 – Electech acquired through a subsidiary a part of a loan granted to a jointly-controlled company (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 \$ 10.4 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 Geneve Switzerland. The net cash flows generated from the sale of such rights amounted to 5.3 million Sfr (approximately \$ 5.3 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.
- 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 \$ 262.6 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 September 30, 2009 the investment in companies which are holding the assets, is presented in under "investments in affiliates" according to equity method.

India

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

Regarding the Company's investments in yielding assets in India, there were no significant changes from the described in paragraphs 8.4 in the Report of the Business Description of the Company as of December 31, 2008.

B. Financial Position

Total assets as of the balance sheet date amounted to \$2,315 million, compared with \$2,567 million at the end of 2008. Most of the decrease in the volume of assets and liabilities of the Company at the balance sheet date is attributable to the five foreign companies oversees which holds 10 assets in German and Holland which in these financial reports are classified under "investments in affiliates" whereas in previous periods they were classified under " jointly controlled investment " (for more details see transactions in Europe above), part of the decrease was deducted with the increase in the volume of assets and liabilities as a result of the change in foreign currency exchange rates in the markets in which the company operates as it is detailed in the table hereinafter:

Details on the change in exchange rates in relation to the shekel between 31/12/2008-30/09/2009

| Currency | Rate Change (in %): |
|------------------------|----------------------------|
| US Dollar | -1.1% |
| Euro | + 4.0% |
| Pound Sterling | + 9.0% |
| Swiss Franc | + 2.5% |
| Canadian Dollar | + 12.5% |

Current assets

Total current assets as of the balance sheet date amounted to US\$ 136.5 million, compared with US\$ 104.6 million as of the end of 2008.

Most of the increase in current assets is primarily attributable to the classification of an asset in Canada which is designated to be realized and a classification of an asset in Israel which was realized after the balance sheet date, from "yield asset" to "asset to be realized".

Non current assets

Non current assets as of the balance sheet date amounted to US\$ 307.6 million as compared with US\$ 264 million on December 31, 2008.

The increase in the non-current assets is primarily attributable to the increase in the investments in affiliates in the report period as a result of the following activities:

- Acquisition of three shopping centers in Europe.
- An asset in the USA which during the report period 11% of his rights were sold and it is presented as investment in Investee companies compared to previous years in which the asset was proportionally consolidated (see transactions in the USA chapter aforementioned).
- Regarding five companies that hold assets in German and Holland during the reported period the company has signed a new management agreement and as a result of that they are classified as "investments in affiliates" whereas in previous periods they were classified as "jointly controlled investment" (for more details see transactions in Europe above).

Yielding assets

Total yielding assets as of the balance sheet date amounted to US\$ 1,871 million as compared with US\$ 2,198 million on December 31, 2008.

The decrease in the company's yielding assets is primarily attributable to the sell of 3 assets in Israel, one asset in Switzerland and from selling the rights of a partnership which holds an asset in the U.S which as a result of this sell was consolidation exit and now classified as investment in investee companies and from five companies that hold assets in German and Holland which during the reported period were exited from consolidation and are classified as investment in investee companies. The decrease was partly compensated by the strengthening of the exchange rates relating the Shekel in the report period as aforementioned.

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\$ 744 million.

Current liabilities

Total current liabilities as of the balance sheet date amounted to US\$ 280 million as compared with US\$ 241 million on December 31, 2008. The increase is primarily attributable to the allocation of a loan which, in previous periods, was included in long-term liabilities, to current liabilities and from short-term loans the company took. For additional details on the company's assumptions of repayment its current liabilities see paragraph "Forecast cash flows for financing the repayment of the Company's liabilities" below.

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\$ 1,695 million as compared with US\$ 2,005 million on December 31, 2008. The decrease in the liabilities is mainly attributed to five companies that hold ten assets abroad which during the reported period were exited from consolidation as detailed above, and from classification of long-term loans to current liabilities, from the repayment of liabilities in respect of assets which were sold in the report period and from an asset in the U.S which was exited from consolidation.

As of the balance sheet date the bank loans, which amounted to US\$ 1,283 million, constituted non-recourse loans secured by a first-tier lien on the asset and the receipts in respect thereof (Electra Real Estate LTD).

The Company's share in the bank loans (respectively to its holding portion in each company) of its affiliates as of the balance sheet date totals US\$ 620 million. These are non-recourse loans.

Shareholders' equity

The Company's shareholders' equity at the balance sheet date was US\$ 340 million compared with US\$ 320 million at the end of 2008. The increase is primarily attributable to capital reserves from translation differences arising from foreign operations and other reserves totaling US\$ 14.9 million (mainly as a result of the strengthening of the currencies in relation to the shekel in countries in which the Company operates, as noted above) and from the profit for the period amounting \$ 4.5 million.

For a further summary, 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 3 | Quarter 2 | Quarter 1 | Quarter 4 | Quarter 3 |
| Rental fees, management fees and others | 47,487 | 47,339 | 49,753 | 50,471 | 51,159 |
| fair value adjustments, Implementation of yield | (3,077) | (3,736) | (1,319) | (35,110) | (4,192) |
| Company's share in results of affiliates, net | 10 | (663) | (458) | (9,467) | 56 |
| Total revenues | <u>44,420</u> | <u>42,940</u> | <u>47,976</u> | <u>5,893</u> | <u>47,023</u> |
| Operating expenses and maintenance fees | 14,139 | 14,640 | 15,616 | 15,659 | 15,488 |
| General and administrative expenses | 1,954 | 1,751 | 2,345 | 431 | 2,978 |
| Financing expenses, net | 26,421 | 26,523 | 24,630 | 24,409 | 22,294 |
| Revaluation of liabilities in respect of index-linked | - | (28) | (6) | (399) | (458) |
| Total costs and expenses | <u>42,514</u> | <u>42,886</u> | <u>42,586</u> | <u>40,101</u> | <u>40,302</u> |
| Pre-tax income (loss) | 1,906 | 53 | 5,389 | (34,208) | 6,721 |
| Tax Expenses(Tax Benefit) | 1,485 | (158) | 1,377 | 2,156 | 3,241 |
| Net income (loss) for the period | <u>421</u> | <u>211</u> | <u>4,012</u> | <u>(36,365)</u> | <u>3,480</u> |
| Attributable to: | | | | | |
| The Company's shareholders | 477 | 228 | 3,913 | (36,247) | 3,535 |
| Minority interest | (56) | (16) | 99 | (118) | (55) |
| Net income (loss) for the period | <u>421</u> | <u>211</u> | <u>4,012</u> | <u>(36,365)</u> | <u>3,480</u> |

Revenues

Total revenues of the Company in the first nine months of 2009 (hereinafter, "the reporting period") amounted to \$ 135.4 million, compared with \$ 157 million in the corresponding period last year.

The company's revenues from rent, management fees and others in the reporting period amounted to \$ 144.5 million, compared with \$ 157.5 million in the corresponding period last year. Most of the decrease attributed to an asset in Britain which was sold in the last quarter of 2008, from three assets in Israel and from an asset in Switzerland which were sold during the report period and from an asset in the U.S in which his revenues in this reporting period were included under earnings from affiliates and in the corresponding period last year they were included under revenues from rental fees and other.

Financing expenses, net

In the reporting period, financing expenses (including revaluation of index-linked options) totaled \$ 77 million, compared with \$ 82 million in the corresponding period last year. The decrease in those expenses is mainly attributed to an asset in Britain which was sold in the last quarter of 2008. In addition the Israeli CPI (known CPI) increased in 3.6% during the period compared with an increase of 5% in the corresponding period last year which impacted the index-linked liabilities in Israel, and in some of the loans (changed interest) the interest rate in the report period was lower compared to the corresponding period last year. The financing expenses in the report period include \$ 58.3 million for long-term loans taken from overseas financial institutions to finance yielding assets overseas. These loans are secured by a fixed lien on the buildings. The Company did not guarantee, nor did it furnish additional collateral for these loans.

Income taxes

The company doesn't write deferred taxes (Income tax benefit/asset) due to its losses in Israel and in a number of foreign companies which hold asset abroad, because there is no certainty about the realization of the tax benefit.

Net income

The net income of the Company in the reporting period amounted to \$ 4.5 million, compared with net income of \$ 16.8 million in the corresponding period last year.

Cash flows

Cash flows used in operating activities

During the reporting period operating activities provided the Company with cash flows totaling US\$ 14.9 million, as compared with US\$ 18.4 million in the corresponding period last year.

The decrease is mainly attributed to payments of exchange rate differences on a USD linked loan (appreciated against the shekel during the period), from the sale of 11% of the rights in a company which holds an asset in the US that is classified as an equity investment compared to it being classified as a jointly controlled investment in the comparative period and from the sale of rights in properties in Israel and in Switzerland that the cash flows derived from was included until their sale (during the second quarter) in comparison to previous periods for which the cash flows from them was presented for the whole period.

Cash flows from investing activities and financing activities

During the period, the Company did not make any material investments in real estate, and accordingly, the amounts of cash flows used in investing activities and which were provided by financing activities are not material.

The company's cash flow from disposal of yielding assets is in amount of \$ 24.7 million.

Forecast cash flows for financing the repayment of the Company's liabilities

The Group has surplus current liabilities over the current assets as of the balance sheet date totaling \$ 143 million. The Company has prepared for the repayment of its current liabilities in the following manner:

A. Liabilities to foreign financial institutions

- The Company is expected to repay long-term loans (from type of Non Recourse) to foreign financial institutions totaling an amount of approximately \$ 75.6 million (which included \$17.4 million due to asset to be realized as it was detailed above). The fair value of the assets, which, for the purpose of the financing, these loans were taken into account, correct as of the date of the report, is \$ 123 million. The Company believes that these loans will be repaid by way of refinancing. As of the balance sheet date these loans are classified as current liabilities. The assets are classified under non-current assets (yielding assets) except for an asset valued approximately \$ 26.6 million which is presented in current assets as an asset to be realized and with regard to, company is in an advanced negotiation for its realization. The company's expected cash flow from this realization if the sale would be completed, after the payment of the loan and before tax is 9 million Canadian dollar (\$ 8.38 million).

B. Liabilities to financial institutions in Israel

- The Group has short-time credit lines amounted to \$ 15.7 million secured by a fixed lien on a yielding asset in Israel.
- During September 2009 the Company has reached an agreement with a financial institution in Israel regarding the extension of the repayment dates from July 2010 to January 2012 of loans totaling \$ 27.4 million. (These loans were classified as long term liabilities in the previous report as well).
- Regarding some of the loans, the company operates to repay them from self-sources and regarding some other loans, the company operates to extend their repayment date (\$ 67.3 million).

C. Unexploited credit line

- As of the balance sheet date, the company has long-term credit lines that not yet used totaling \$ 17.3 million, and short-term credit lines totaling \$ 11.2 million.

D. Sale of assets and investments

- During the reporting period the company has sold its rights in various assets in Israel and abroad. The net cash flow generated to the company amounted to \$ 24.85 Million.
- After the reporting period the company sold its rights in another asset in Israel . The cash flows derived as a result of realization these rights amounted to approximately \$ 5.6 million.
- The Company intends to sell a number of properties in 2009 and 2010, both abroad and in Israel, the sale proceeds of which, net of the loans which were taken for their purchase, will lead to an increase in the Company's cash balance and will improve the Company's working capital.

E. Current cash flow

- The Company has allocated loans regarding Non-recourse loans received to finance asset abroad amounted to \$ 17.5 million, which due to repayment from the current cash flow of those assets.

F. Bonds

- As of the balance sheet date, the Company has a liability to bondholders in an aggregate total of \$ 100 million.
- Out of the abovementioned liabilities to bondholders, a total of \$ 1.6 million is for repayment in October 2009 and a total of \$ 16.7 million is for repayment during August 2010 and a total of \$1.6 million is for repayment during April 2010 . The rest a total of \$ 80 million is for repayment till April 2019.

G. General

- The company has liabilities to foreign financial institutions whose total balance at the balance sheet date is \$ 1,283 million. These are non-recourse. The maturity of the principal related to these loans fall between the years 2009-2035. From this amount, approximately \$ 75.5 million is due to mature in the first quarter of 2010 as detailed above.

H. Examination of fundraising by means of Shelf Prospectus

- On November 26, 2009 the company published a Shelf Prospectus. The company intends to examine the possibility of fundraising according to this Prospectus.

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 the current liabilities.

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 paragraph 1(B) in the financial statements as of September 30, 2009, in relation to the forecasted cash flows, for the refinancing of loans, for the sale of the assets and the current cash flow for the second quarter of 2009 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 third quarter of the year 2009 was \$ 5.64 million compared to a total of \$ 4.28 million in the equivalent period last year.

The total F.F.O derived for the company in the reporting period of the year 2009 was \$ 14.85 million compared to a total of \$ 18.33 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:

| | <u>Nine months ended</u> <u>September 30,</u> | | <u>Three months ended</u> <u>September 30,</u> | | <u>Year ended</u> <u>December 31,</u> |
|--|--|---------------|---|--------------|--|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2008</u> |
| | <u>(Unaudited)</u> | | <u>(Unaudited)</u> | | <u>(Audited)</u> |
| | <u>In thousands</u> | | | | |
| Net income (loss) for the period | 4,643 | 16,860 | 421 | 3,480 | (19,502) |
| adjustments: | | | | | |
| fair value adjustments, Implementation of yield assets and others, net | 8,133 | 3,094 | 3,078 | 4,192 | 38,204 |
| depreciation And reduction | 1,621 | 202 | 527 | 128 | 575 |
| profit (lose) due to bonds and loans retirement before maturity | (2,760) | (9,580) | - | (9,580) | (14,902) |
| adjustments due to revaluation of investments in affiliates | - | - | - | - | 10,511 |
| deferred taxes and tax due to fair value adjustments | (408) | 4,237 | (320) | 2,395 | 4,237 |
| Linkage differentials that was Accumulated on credit | 3,298 | 4,951 | 2,312 | 3,228 | 5,718 |
| revaluation of Derivatives and linkage basis of liabilities | (34) | (2,906) | - | (458) | (3,304) |
| Other | 347 | 1,470 | (359) | 901 | 2,330 |
| total adjustments for net profit (loss) | <u>10,197</u> | <u>1,469</u> | <u>5,238</u> | <u>806</u> | <u>43,370</u> |
| F.F.O | <u>14,840</u> | <u>18,329</u> | <u>5,659</u> | <u>4,286</u> | <u>23,868</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 (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 caring out of the structural change arrangement and receiving the approval of the various authorities as above detailed, the structural change, in within it's framework the company was spilt from Electra and became from being her subsidiary to being her sister company, was carried out.

1.6 For further information, see paragraphs 6(2) and 6(3) in the financial statements as of September 30, 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. For more details about the transactions during the reported period see note 4 in the financial statements of the company as of September 30, 2009.

E. Events after the balance period

1. In the period between the balance sheet date (September 30, 2009) and the publication date of the financial statements for the third quarter (November 29, 2009), 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 September 30, 2009 and November 26, 2009)

| Currency | Rate's Change (in %): |
|-----------------|-----------------------|
| US Dollar | +0.5% |
| Euro | +3.3% |
| Pound Sterling | +3.3% |
| Swiss Franc | +3.3% |
| Canadian Dollar | +2.2% |

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 +2%. Nonetheless, the effect of exchange rates on the operating results for the 4th quarter of 2009 in according to the exchange rates that actually occur throughout the entire quarter and at its end (December 31, 2009).

2. 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.

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

Company's policy and method for managing business risk

The Company uses the following means for reducing its business 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 paragraph 16 in the Report of the Business Description of the Company as of December 31, 2008. 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 paragraph 29 in the Report of the Business Description of the Company as of December 31, 2008.

G. Accounting estimates

See Report of the Board of Directors as of December 31, 2008.

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

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

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

November 29, 2009

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

At your request, we have reviewed the condensed interim consolidated balance sheet of **Electra Real Estate Ltd.** and its subsidiaries (hereinafter - "the Group") as of September 30, 2009, and the related condensed interim consolidated statements of operations, comprehensive income (loss) statement, changes in shareholders' equity and cash flows for the periods of nine months and of three months ended on that date (in the Hebrew language, not included herein) and have issued our accountants review report thereon dated November 29, 2009.

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 82% of the total consolidated assets as of September 30, 2009 and whose revenues constitute approximately 89% and approximately 94% of the total consolidated revenues, for the periods of nine months and three months ended on that date, respectively. We did not review the financial statements of affiliated companies, in which the Company's investment as of September 30, 2009 amounted to \$107 millions and the Company's share in their results amounted to \$3,459 and \$798 thousand for the periods of nine months and three months ended on that date, respectively. The financial statements of those companies were reviewed by other auditors.

As described in Note 1, the accompanying English-language condensed interim consolidated financial statements in US dollars represent a translation of the above-mentioned NIS financial statements into US dollars in condensed form solely for the convenience of the reader ("convenience translation"), using the representative dollar exchange rate in effect on September 30, 2009. Comparative figures for the periods of nine months and three months ended September 30, 2008 and for the year ended December 31, 2008 represent a translation of the original NIS values of the respective period, using the representative dollar exchange rate in effect on September 30, 2009. 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 Zohar & Co.
Certified Public Accountants

Tel-Aviv, November 29, 2009

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

| | <u>September 30,</u> | | <u>December 31,</u> |
|--|----------------------|------------------|---------------------|
| | <u>2009</u> | <u>2008</u> | <u>2008</u> |
| | <u>In thousands</u> | | <u>In thousands</u> |
| | <u>(Unaudited)</u> | | <u>(Audited)</u> |
| ASSETS | | | |
| <u>Current assets</u> | | | |
| Cash and cash equivalents | 78,012 | 89,788 | 75,486 |
| Short-term deposits | 10,754 | 13,694 | 14,127 |
| Marketable securities | 2,579 | 3,201 | 3,001 |
| Trade accounts receivable | 3,894 | 6,128 | 4,716 |
| Current tax assets | 2,348 | 555 | 936 |
| Receivables and other current assets | 6,842 | 8,914 | 6,415 |
| Assets to be realized (See note 4H and 5A) | 32,135 | - | - |
| | <u>136,564</u> | <u>122,280</u> | <u>104,681</u> |
| <u>Non current assets</u> | | | |
| Investments in affiliates | 199,159 | 175,807 | 174,130 |
| Loans and long-term receivables | 36,138 | 37,122 | 23,465 |
| Fixed assets | 454 | 392 | 285 |
| Inventory of land | 29,303 | 22,804 | 25,277 |
| Available-for-sale assets | 42,440 | 65,212 | 38,937 |
| Deferred income taxes | 40 | 822 | 1,914 |
| | <u>307,534</u> | <u>302,159</u> | <u>264,008</u> |
| <u>Yielding assets in -</u> | | | |
| Europe | 1,191,422 | 1,329,985 | 1,420,151 |
| North America | 468,845 | 561,385 | 545,979 |
| Israel | 170,484 | 189,767 | 194,447 |
| Britain | 40,560 | 179,264 | 37,213 |
| | <u>1,871,311</u> | <u>2,260,401</u> | <u>2,197,790</u> |
| Total Assets | <u>2,315,409</u> | <u>2,684,840</u> | <u>2,566,479</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**

| | <u>September 30,</u> | | <u>December 31,</u> |
|--|----------------------|------------------|---------------------|
| | <u>2009</u> | <u>2008</u> | <u>2008</u> |
| | <u>In thousands</u> | | <u>In thousands</u> |
| | <u>(Unaudited)</u> | | <u>(Audited)</u> |
| LIABILITIES AND EQUITY | | | |
| <u>Current liabilities</u> | | | |
| Bank borrowings (including loans and debentures current maturities) | 200,490 | 212,142 | 174,024 |
| Current tax liabilities | 5,880 | 5,737 | 4,000 |
| Trade accounts payable | 3,663 | 6,357 | 3,090 |
| Payables and other current liabilities | 51,874 | 62,557 | 59,445 |
| Liabilities due to assets to be realized (See note 4H) | 18,041 | - | - |
| | <u>279,948</u> | <u>286,793</u> | <u>240,559</u> |
| <u>Non current liabilities</u> | | | |
| Debentures | 80,252 | 113,631 | 95,834 |
| Long-term loans to finance development projects | 17,485 | 16,301 | 16,691 |
| Liabilities in respect of index-linked options | - | 432 | 35 |
| Loans from Electra Group companies | 20,668 | 21,818 | 20,780 |
| Loans from shareholders in subsidiaries | 3,283 | 2,545 | 2,687 |
| Employee benefit liability | 882 | 759 | 728 |
| Other long-term liabilities | 36,630 | 25,920 | 30,738 |
| Deferred income taxes | 81,433 | 77,580 | 80,375 |
| | <u>240,633</u> | <u>258,986</u> | <u>247,868</u> |
| Loans for financing investments and yielding assets and other financial investments: | | | |
| Europe | 999,764 | 1,148,027 | 1,243,663 |
| North America | 338,080 | 418,027 | 424,017 |
| Israel | 70,376 | 43,361 | 47,197 |
| Britain | 46,459 | 165,002 | 42,716 |
| | <u>1,454,679</u> | <u>1,774,417</u> | <u>1,757,593</u> |
| <u>Equity</u> | | | |
| Ordinary Share Capital 0.0001 NIS Net Value | 1 | 1 | 1 |
| Share premium | 136,544 | 136,544 | 136,544 |
| Capital reserves | (45,782) | (53,701) | (60,498) |
| Retained earnings | 243,551 | 275,182 | 238,935 |
| Equity attributable to the Company's shareholders | 334,314 | 358,026 | 314,982 |
| Minority interests | 5,835 | 6,618 | 5,477 |
| Total equity | <u>340,149</u> | <u>364,644</u> | <u>320,459</u> |
| Total Liabilities and Equity | <u>2,315,409</u> | <u>2,684,840</u> | <u>2,566,479</u> |

November 29, 2009

| | | | |
|--|--------------------------|----------------------------|--|
| Approval date of the financial statements | Zvi Duskin CFO | Shlomo Sherf CEO | Gershon Salkind 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**

| | Nine months ended September 30, | | Three months ended September 30, | | Year ended December 31, |
|--|------------------------------------|----------------|-------------------------------------|---------------|----------------------------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| | In thousands (Unaudited) | | In thousands (Unaudited) | | In thousands (Audited) |
| Revenues | | | | | |
| Rental fees, management fees and others | 144,579 | 157,654 | 47,487 | 51,159 | 208,125 |
| Adjustment of fair value, results of disposal of yielding properties and others, net | (8,133) | (3,094) | (3,077) | (4,192) | (38,204) |
| Company's share in results of affiliates, net | (1,111) | 2,443 | 10 | 56 | (7,025) |
| Total revenues | <u>135,335</u> | <u>157,003</u> | <u>44,420</u> | <u>47,023</u> | <u>162,896</u> |
| Costs and Expenses | | | | | |
| Operating expenses and maintenance fees | 44,395 | 46,854 | 14,139 | 15,488 | 62,513 |
| General and administrative expenses | 6,051 | 7,498 | 1,954 | 2,978 | 7,929 |
| Financing expenses | 81,235 | 98,445 | 26,633 | 33,346 | 126,416 |
| Financing income | (3,660) | (13,445) | (212) | (11,052) | (17,008) |
| Revaluation of liabilities in respect of index-linked options | (34) | (2,906) | - | (458) | (3,305) |
| Total costs and expenses | <u>127,987</u> | <u>136,446</u> | <u>42,514</u> | <u>40,302</u> | <u>176,545</u> |
| Pre-tax income (loss) | 7,348 | 20,557 | 1,906 | 6,721 | (13,649) |
| Tax Expenses | 2,705 | 3,697 | 1,485 | 3,241 | 5,853 |
| Net income (loss) for the period | <u>4,643</u> | <u>16,860</u> | <u>421</u> | <u>3,480</u> | <u>(19,502)</u> |
| Attributable to: | | | | | |
| The Company's shareholders | 4,616 | 16,849 | 477 | 3,535 | (19,395) |
| Minority interest | 27 | 11 | (56) | (55) | (107) |
| Net income (loss) for the period | <u>4,643</u> | <u>16,860</u> | <u>421</u> | <u>3,480</u> | <u>(19,502)</u> |
| Earnings (Loss) per share (in dollars) attributed to the Mother Company's shareholders: | | | | | |
| Basic | <u>0.18</u> | <u>0.64</u> | <u>0.02</u> | <u>0.14</u> | <u>(0.71)</u> |
| Diluted | <u>0.18</u> | <u>0.64</u> | <u>0.02</u> | <u>0.13</u> | <u>(0.71)</u> |
| Weighted average number of ordinary shares used in the calculation of earnings (loss) per share (in thousands): | | | | | |
| Basic | <u>26,265</u> | <u>26,265</u> | <u>26,265</u> | <u>26,265</u> | <u>26,265</u> |
| Diluted | <u>26,265</u> | <u>26,407</u> | <u>26,265</u> | <u>26,330</u> | <u>26,265</u> |

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
CONVENIENCE TRANSLATION INTO U.S. DOLLARS

| | <u>Nine months ended</u> <u>September 30,</u> | | <u>Three months ended</u> <u>September 30,</u> | | <u>Year ended</u> <u>December 31,</u> |
|---|--|-----------------|---|-----------------|--|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2008</u> |
| | <u>In thousands</u> | | | | |
| | <u>(Unaudited)</u> | | <u>(Unaudited)</u> | | <u>(Audited)</u> |
| Net income (loss) for the period | 4,643 | 16,860 | 421 | 3,480 | (19,502) |
| Other comprehensive income (loss) | | | | | |
| Profit (loss) due to remeasuring of available for sale assets, net tax | 3,503 | (20,872) | (3,240) | (4,727) | (43,291) |
| Profit (loss) due to currency change differences concerning loans that were designated for hedging available for sale assets. | (2,324) | 6,626 | 2,155 | 1,793 | 10,070 (*) |
| Loss due to cash flow hedges, net tax | (564) | (2,082) | (43) | (654) | (1,391) (*) |
| Adjustments on the translation of financial statements of overseas activities | 14,337 | (57,772) | (3,383) | (13,499) | (47,367) (*) |
| Other inclusive income (loss), net tax | <u>14,952</u> | <u>(74,100)</u> | <u>(4,511)</u> | <u>(17,087)</u> | <u>(81,979)</u> |
| Total other inclusive income (loss) for the period | <u>19,595</u> | <u>(57,240)</u> | <u>(4,090)</u> | <u>(13,607)</u> | <u>(101,481)</u> |
| Total other inclusive income (loss) for the period attributed to: | | | | | |
| The Company's shareholders | 19,237 | (56,699) | (4,120) | (13,542) | (99,801) |
| Minority interest | 358 | (541) | 30 | (65) | (1,680) |
| | <u>19,595</u> | <u>(57,240)</u> | <u>(4,090)</u> | <u>(13,607)</u> | <u>(101,481)</u> |

The accompanying notes are an integral part of the financial statements

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

nine months ended September 30, 2009 (Unaudited)

| | 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, 2009 | 1 | 136,544 (*) | (13,784) | 1,418 | (860) (*) | (47,272) | 238,935 | 314,982 | 5,477 | 320,459 |
| Net income for the period | | | | | | | 4,616 | 4,616 | 27 | 4,643 |
| Profit due to revaluation of available for sale assets, net tax | | | 3,503 | | | | | 3,503 | | 3,503 |
| Loss due to currency change differences concerning loans that were designated for hedging available for sale assets. | | | (2,324) | | | | | (2,324) | | (2,324) |
| Loss due to cash flow hedges, net tax | | | | | (564) | | | (564) | | (564) |
| Adjustments on the translation of financial statements of overseas activities | | | | | | 14,006 | | 14,006 | 331 | 14,337 |
| Total profit for the period | - | - | 1,179 | - | (564) | 14,006 | 4,616 | 19,237 | 358 | 19,595 |
| Share-based payment | | | | 95 | | | | 95 | | 95 |
| Total transactions with the company's share holders during their duty | - | - | - | 95 | - | - | - | 95 | - | 95 |
| Total Equity – September 30, 2009 | 1 | 136,544 | (12,605) | 1,513 | (1,424) | (33,266) | 243,552 | 334,314 | 5,835 | 340,149 |

(*) reclassified.

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

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

nine months ended September 30, 2008 (Unaudited)

| | 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 | 136,544 (*) | 19,438 | 1,189 | 531 (*) | (1,481) | 263,574 | 419,796 | 7,159 | 426,955 |
| Net income for the period | | | | | | | 16,849 | 16,849 | 11 | 16,860 |
| Loss due to revaluation of available for sale assets, net tax | | | (20,872) | | | | | (20,872) | | (20,872) |
| Profit (loss) due to currency change differences concerning loans that were designated for hedging available for sale assets. | | | 6,626 | | | | | 6,626 | | 6,626 |
| Loss due to cash flow hedges, net tax | | | | | (2,082) | | | (2,082) | | (2,082) |
| Adjustments on the translation of financial statements of overseas activities | | | | | | (57,220) | | (57,220) | (552) | (57,772) |
| Total profit (loss) for the period | - | - | (14,246) | - | (2,082) | (57,220) | 16,849 | (56,699) | (541) | (57,240) |
| Dividend paid to minority | | | | | | | (5,242) | (5,241) | | (5,242) |
| Share-based payment | | | | 172 | | | | 172 | | 172 |
| Total transactions with the company's share holders during their duty | - | - | - | 172 | - | - | (5,242) | (5,069) | - | (5,069) |
| Total Equity – September 30, 2008 | 1 | 136,544 | 5,192 | 1,361 | (1,551) | (58,701) | 275,182 | 358,028 | 6,618 | 364,646 |

(*) reclassified.

The accompanying notes are an integral part of the financial statements

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

Three months ended September 30, 2009 (Unaudited)

| | 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 - June 1, 2009 | 1 | 136,544 (*) | (11,520) | 1,481 | (1,381) (*) | (29,798) | 243,075 | 338,402 | 5,805 | 344,207 |
| Net income for the period | | | | | | | 476 | 476 | (56) | 420 |
| Loss due to revaluation of available for sale assets, net tax | | | (3,240) | | | | | (3,240) | | (3,240) |
| Profit (loss) due to currency change differences concerning loans that were designated for hedging available for sale assets. | | | 2,155 | | | | | 2,155 | | 2,155 |
| Loss due to cash flow hedges, net tax | | | | | (43) | | | (43) | | (43) |
| Adjustments on the translation of financial statements of overseas activities | | | | | | (3,468) | | (3,468) | 86 | (3,382) |
| Total profit (loss) for the period | - | - | (1,085) | - | (43) | (3,468) | 476 | (4,120) | 30 | (4,090) |
| Share-based payment | | | | 32 | | | | 32 | | 32 |
| Total transactions with the company's share holders during their duty | | | | 32 | | | | 32 | | 32 |
| Total Equity – September 30, 2009 | 1 | 136,544 | (12,605) | 1,513 | (1,424) | (33,266) | 243,551 | 334,314 | 5,835 | 340,149 |

(*) reclassified.

The accompanying notes are an integral part of the financial statements

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

Three months ended September 30, 2008 (Unaudited)

| | 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 - June 1, 2008 | 1 | 136,544 (*) | 8,126 | 1,303 | (898) (*) | (45,210) | 276,888 | 376,753 | 6,683 | 383,436 |
| Net income for the period | | | | | | | 3,536 | 3,536 | (55) | 3,481 |
| loss due to revaluation of available for sale assets, net tax | | | (4,728) | | | | | (4,728) | | (4,728) |
| Profit (loss) due to currency change differences concerning loans that were designated for hedging available for sale assets. | | | 1,793 | | | | | 1,793 | | 1,793 |
| Loss due to cash flow hedges, net tax | | | | | (653) | | | (653) | | (653) |
| Adjustments on the translation of financial statements of overseas activities | | | | | | (13,490) | | (13,490) | (9) | (13,498) |
| Total profit (loss) for the period | - | - | (2,935) | - | (653) | (13,490) | 3,536 | (13,542) | (64) | (13,605) |
| Dividend paid to minority | | | | | | | (5,242) | (5,242) | | (5,242) |
| Share-based payment | | | | 57 | | | | 57 | | 57 |
| Total transactions with the company's share holders during their duty | - | - | - | 57 | - | | (5,242) | (5,185) | - | (5,185) |
| Total Equity – September 30, 2008 | 1 | 136,544 | 5,191 | 1,360 | (1,551) | (58,700) | 275,182 | 358,027 | 6,619 | 364,646 |

(*) reclassified.

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, 2008 (Audited)

| | 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 | 136,544 | (*) | 19,438 | 1,189 | 531 | (*) | (1,481) | 263,574 | 419,796 | 7,159 | 426,955 |
| Loss for the period | | | | | | | | (19,398) | (19,398) | (107) | (19,504) | |
| Loss due to revaluation of available for sale assets, net tax | | | (*) | (43,291) | | | | (43,291) | | | (43,291) | |
| Profit (loss) due to currency change differences concerning loans that were designated for hedging available for sale assets. | | | (*) | 10,070 | | | | 10,070 | | | 10,070 | |
| Loss due to cash flow hedges, net tax | | | | | (1,391) | | | (1,391) | | | (1,391) | |
| Adjustments on the translation of financial statements of overseas activities | | | | | | (*) | (45,791) | (45,791) | (1,576) | (47,367) | | |
| Total profit (loss) for the period | - | - | (33,221) | - | (1,391) | | (19,398) | (99,801) | (1,683) | (101,484) | | |
| Dividend paid to minority | | | | | | | (5,242) | (5,242) | | (5,242) | | |
| Share-based payment | | | | 229 | | | | 229 | | 229 | | |
| Total transactions with the company's share holders during their duty | - | - | - | 229 | - | - | (5,242) | (5,013) | | (5,013) | | |
| | | | | | | | | - | | - | | |
| Total Equity –December 31 2008 | 1 | 136,544 | | (13,783) | 1,418 | (860) | (47,272) | 238,935 | 314,982 | 5,476 | 320,458 | |

(*) reclassified.

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**

| | nine months ended September 30, | | Three months ended September 30, | | Year ended December 31, |
|---|------------------------------------|-----------------|-------------------------------------|-----------------|----------------------------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| | In thousands | | | | |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| Cash Flow - Operating Activities: | | | | | |
| Net income (loss) for the period | 4,643 | 16,861 | 420 | 3,481 | (19,504) |
| Adjustments required to present cash flows from operating activities (Appendix A) | 10,369 | 1,596 | 6,334 | 2,423 | 44,104 |
| Net cash - operating activities | 15,012 | 18,457 | 6,754 | 5,904 | 24,600 |
| Cash Flows - Investing Activities: | | | | | |
| Proceeds from the sale (invest) of marketable securities, net | 461 | (180) | (932) | - | (15) |
| Collection (Giving) of Long-term loans | (5,036) | (6,950) | (243) | 890 | 15 |
| Change from selling of proportionate consolidated companies | 24,250 | - | 5,057 | - | - |
| Consolidation exit of investees that were proportionately consolidated (Appendix B) | (4,488) | - | (2,602) | - | (2,166) |
| Change of short-term deposits | 970 | 6 | (1,718) | (1,187) | 5 |
| Change in long-term deposit, net | - | (2,815) | - | 8,989 | (2,748) |
| Investments in shares and loans of affiliates and other | (5,918) | (15,561) | 1,149 | (14,116) | (11,346) |
| Initial consolidation of an affiliate (Appendix C) | - | (2,893) | - | - | (2,893) |
| Acquisition and construction of yielding assets | (40,833) | (31,431) | (26,197) | (19,040) | (56,766) |
| Acquisition of fixed assets and other assets | (264) | (148) | (264) | (9) | (148) |
| Proceeds from disposition of yielding properties | 491 | 50,984 | - | - | 50,984 |
| Net cash used in investing activities | (30,367) | (8,988) | (25,750) | (24,473) | (25,078) |
| Cash Flows - Financing Activities: | | | | | |
| Dividend paid | - | (5,242) | - | (5,242) | (5,242) |
| Receipt of long-term loans | 40,512 | 60,479 | 26,127 | 27,755 | 82,310 |
| Repayment of long-term loans | (20,961) | (89,159) | (6,273) | (31,829) | (65,472) |
| Receipt of loans and capital notes from the Electra Group companies, net | 4,276 | - | 4,276 | - | - |
| Repayment of loans and capital notes from the Electra Group companies, net | - | (4,411) | - | - | (4,411) |
| Receipt (Repayment) of loans and capital notes from minority shareholders in consolidated subsidiaries, net | - | (184) | - | (184) | (184) |
| Repayment of debentures | (16,796) | - | (16,796) | - | (16,249) |
| Prepayment of bonds and long-term liabilities | (8,942) | - | - | - | (23,307) |
| Short-term bank borrowings, net | 18,037 | 431 | (617) | (11,114) | (11,206) |
| Net cash - financing activities | 16,126 | (38,086) | 6,717 | (20,614) | (43,761) |
| Increase (Decrease) in cash and cash equivalents | 772 | (28,617) | (12,279) | (39,183) | (44,239) |
| Cash and cash equivalents at beginning of period | 75,486 | 125,424 | 90,664 | 131,069 | 125,424 |
| Translation differences relating to cash balances in foreign currency | 1,754 | (7,019) | (373) | (2,098) | (5,699) |
| Cash and cash equivalents at end of period | 78,012 | 89,788 | 78,012 | 89,788 | 75,486 |

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**

| | Nine months ended September 30, | | Three months ended September 30, | | Year ended December 31, |
|--|------------------------------------|------|-------------------------------------|------|----------------------------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| | In thousands | | | | |
| | (Unaudited) | | (Unaudited) | | (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 | 1,111 | (5,347) | (10) | (2,960) | 3,892 |
| Gain from prepayment of bonds and long-term liabilities | (2,760) | - | - | - | (14,895) |
| Depreciation and amortization | 104 | 202 | 21 | 128 | 308 |
| Adjustment of fair value and results of disposal of yielding properties, net | 8,133 | 3,094 | 3,077 | 4,192 | 38,204 |
| Loss (Gain) from marketable securities | (156) | 102 | 1 | 46 | 138 |
| Recording of expenses in connection with share based payments | 95 | 172 | 32 | 57 | 229 |
| Revaluation of liabilities in respect of index-linked options | (34) | (2,906) | - | (458) | (3,304) |
| deferred income tax net | 1,188 | (3,299) | 960 | (513) | 3,082 |

Changes in assets and liabilities:

| | | | | | |
|--|---------|-------|---------|---------|-------|
| Trade accounts receivables | (661) | 873 | (1,333) | 1,114 | 592 |
| Receivables and other current assets | (2,146) | (723) | 2,347 | 978 | 1,469 |
| Trade accounts payables | 520 | 3,466 | 321 | 3,919 | 204 |
| Payables and other current liabilities | 23 | 3,855 | (2,047) | (2,007) | 3,006 |

Change in value of long-term receivables and liabilities, net (including interest charged to the parent company)

| | | | | |
|--------|-------|-------|---------|--------|
| 4,952 | 2,107 | 2,965 | (2,073) | 11,179 |
| 10,369 | 1,596 | 6,334 | 2,423 | 44,104 |

Appendix B - Consolidation exit of investees that were proportionately consolidated

| | | | | | |
|--|-----------|---|-----------|---|-----------|
| Net working capital (excluding cash) | (60,090) | - | (6,098) | - | 247 |
| Long-term receivables | (517) | - | 1,257 | - | 6,201 |
| Yielding assets, net | 445,763 | - | 262,714 | - | 104,348 |
| Long-term liabilities | (367,502) | - | (263,048) | - | (115,918) |
| Investment in affiliates | (20,112) | - | 2,573 | - | - |
| Gain (Loss) from investments realization | (2,030) | - | - | - | 2,956 |
| | (4,488) | - | (2,601) | - | (2,166) |

Appendix C - Initial consolidation of an affiliate

| | | | | | |
|--------------------------------------|---|----------|---|---|----------|
| Net working capital (excluding cash) | - | 10,222 | - | - | 10,222 |
| Fixed assets and other assets | - | - | - | - | - |
| Long-term receivables | - | (1,178) | - | - | (1,178) |
| Yielding assets, net | - | (15,607) | - | - | (15,607) |
| Investment in affiliates | - | 2,693 | - | - | 2,693 |
| Long-term liabilities | - | 977 | - | - | 977 |
| | - | (2,893) | - | - | (2,893) |

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**

| | Nine months ended September 30, | | Three months ended September 30, | | Year ended December 31, |
|---|------------------------------------|--------|-------------------------------------|--------|----------------------------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| <u>Appendix D – Additional cash flow information</u> | | | | | |
| Cash paid during the period: | | | | | |
| Interest | 82,797 | 88,519 | 27,580 | 27,741 | 119,891 |
| Income taxes | 951 | 226 | 282 | 34 | 783 |
| Cash received during the period: | | | | | |
| Interest | 731 | 2,069 | 189 | 730 | 2,310 |
| Income taxes | - | 45 | - | 45 | 45 |
| <u>Appendix E – Non-cash transactions</u> | | | | | |
| Purchase of yielding property on credit | 1,476 | 1,640 | 1,476 | 1,640 | 1,742 |

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.
NOTES TO THE CONDENSED 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. The company held by Electra Ltd (former: Electra Israel Ltd, hereinafter – "The parent company", "Electra") and the ultimate company that holds the company is Elco Holdings Ltd. As of September 30, 2009 – the company is held directly by Elco Holdings Ltd (hereinafter – The Parent company) see note 6. 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 \$ 143 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

- The Company is expected to repay long-term debts to foreign financial institutions totaling \$ 76 million. The fair value of the assets, which, for the purpose of the financing, these loans were taken into account, correct as of the date of the report, is \$ 123 million. The Company believes that these loans will be repaid by way of refinancing.
- Likewise, the company conducts negotiation to sell a real estate asset in Canada which the loan due to it (included in the framework of the above mentioned loans) amounts to \$18.7 (Canadian \$) millions. The expected financial cash flow to the company, if the sell will be completed, after the repayment of the loan, and before tax is approximately \$9 millions (Canadian \$), see note 4H.

b. Liabilities to financial institutions in Israel

- The Group have short-time credit lines amounted to \$ 16 million secured by a fixed lien on a yielding asset in Israel.
- Regarding loans in the amount of \$ 67 million, The company operates to repay them from self-sources and for the extension of the repayment date.

c. Unexploited credit line

As of the balance sheet date, the company has long-term credit lines that not yet used totaling \$ 17 million, and short-term credit lines that not yet used totaling \$ 11 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. Sale of assets and investments

- As of the balance sheet date the company has sold some of its assets' rights in Israel and abroad. The company's cash flow from this sales (gross before the tax), after deduction of loans and the debts due to the sold assets, is \$ 24.8 million.
- On November 2009 the company sold all of her rights in an asset in Israel (BVR building). the cash flow (after tax) regarding to the sale of the rights as stated was \$ 5.6 million.
- The Company intends to sell a number of properties, both abroad and in Israel, the sale proceeds of which, net of the loans which were taken for their purchase, will lead to an increase in the Company's cash balance and will improve the Company's working capital.

e. Current cash flow

- The Company has allocated loans regarding Non-recourse loans received to finance asset abroad amounted to \$ 17.6 million, which due to repayment from the current cash flow of those assets.

f. Examination of fundraising through a prospectus

- On November 26, 2009 the company published a Prospectus bearing the date of November 27, 2009. the company intends to examine the possibility of fundraising according to this Prospectus.

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 liabilities.

- C.** These condensed financial statements should be reviewed in conjunction with the Company's annual statements as of December 31, 2008 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 September 30 ,2009 (\$1.00= NIS 3.758).

The accompanying English-language condensed interim consolidated financial statements in US dollars represent a translation of the above-mentioned NIS financial statements into US dollars in condensed form solely for the convenience of the reader ("convenience translation"), using the representative dollar exchange rate in effect on September 30 ,2009. Comparative figures for the nine and three months periods ended September 30, 2008 and for the year ended December 31, 2008 represent a translation of the original NIS values of the respective period, using the representative dollar exchange rate in effect on September 30 ,2009. 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

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

Note 2 - Reporting principles and accounting policies

A. Basis for the financial statements editing

The interim condensed consolidated financial statements ("interim financial statements") of the Company have been prepared in conformity with International Accounting Standard No. 34 "interim financial reporting" (hereinafter-"IAS 34").

In conducting these interim financial statements, the Group implemented accounting policy, reporting standards and measurement methods identical to those implemented in conduction of her financial statements as of December 31, 2008, and for the year then ended, excluding the changes in the accounting policy derived from the implementation of new financial reporting standards, amendments to reporting standards and clarification published which forced in the financial statements date as detailed in paragraph c below.

- B.** The interim consolidated financial statements of the Company have been prepared in conformity with the Securities Regulations (Periodic and Immediate Reports), 1970.

Statement regarding the implementation of International Financial Reporting Standards

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.

C. New financial reporting standards and clarifications that have been issued:

(1) New effective standards and clarifications which are being applied in these financial statements:

- **Amendment IFRS 2 – Share based payments - terms for vesting and cancellations**

The amendment defines which terms for vesting should be included when stating the share based payment fair value in the grant date. Further explain the accounting treatment relating instruments with no vesting terms and cancellations.

The standard is to be implemented retrospectively in respect of the financial statements for periods commencing on January 1, 2009.

This amendment will not have any material effect on the company's financial reports.

- **Amendment IAS 32 – Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements**

The amendment to IAS 32 alters the definition of financial liability, financial asset and capital instrument, and provides that certain financial instruments that are realizable in the hands of the holder, should be classifies as capital instruments.

The provisions of the amendment will apply in respect of annual reporting periods commencing January 1, 2009.

This amendment will not have any material effect on the company's financial reports.

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

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

C. New financial reporting standards and clarifications that have been issued: (Cont.)

(1) New effective standards and clarifications which are being applied in these financial statements: (Cont.)

- **IFRIC 15 - Agreements for the Construction of Real Estate**

The Interpretation provides the accounting treatment in accompanying incomes and expenses of entities which independently or through sub-contractor establishing real estate and supplying goods or services which is included in establishing real estate agreement.

The Interpretation establishes rules for distinguishing between agreements for the construction of real estate under the scope of IAS 11 "construction contracts" and similar agreements under the scope of IAS 18 "revenue". Accordingly, revenue will be recognized by reference to the stage of completion. Incomes from agreements, which according to the interpretation constitutes supplying goods agreements will be recognized in the risk and benefit transfer date to the buyer, and incomes from supplying services agreements will be recognized according to the completion date of the transaction in the balance sheet date. The Interpretation applies to annual financial statements for periods beginning on or after January 1, 2009 and will be adopted retrospectively.

This Interpretation will not have any material effect on the company's financial reports.

- **IFRIC 16, Hedges of a Net Investment in a Foreign Operation:**

The Interpretation provides the hedged risk nature and the hedged item amount during the net investment hedge in foreign activities. The Interpretation also prescribes that the hedging instrument may be held by any entity within the Group and the amount level that will be classified from the equity to the statement of operations while realizing the foreign activity, which regarding her the net investment in foreign companies hedge accounting was implemented.

The Interpretation applies to annual financial statements for periods beginning on or after January 1, 2009.

This Interpretation will not have any material effect on the company's financial reports.

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

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

C. New financial reporting standards and clarifications that have been issued: (Cont.)

(1) New effective standards and clarifications which are being applied in these financial statements: (Cont.)

- **IAS 1 (Amended), Presentation of Financial Statements**

The standard stipulates the presentation required in the financial statements, and itemizes a general framework for the structure of the financial statements and the minimal contents which must be included in the context of the report. Changes have been made to the existing presentation format of the financial statements, and the presentation and disclosure requirements for the financial statements have been broadened, including the presentation of an additional report in the framework of the financial statements called "statement of comprehensive income (loss)" and the addition of balance sheet to the beginning of the earliest period presented in the financial statements and in cases of change in accounting policy in the way of retrospective application, restatements cases and reclassification cases. The amendment applies to annual financial statements for periods beginning on or after January 1, 2009 and will be adopted retrospectively. According to this standard, the Group present comprehensive income (loss) statements report, which details the components of the other comprehensive income (loss) separately from the components presented in the statement of operations report and statement of changes in equity report presenting balances regarding transactions with shareholders, while in their duty as shareholders. The initial adoptions of this standard has no effect on the company's financial reports.

- **IFRS 8, Operating segments**

The standard, which replaces IAS 14, details how an entity must report on data according to segments. Among other things, the standard prescribes that the segmental reporting of a company is based upon the data which is used by the management of a company for purposes of assessing the performance of the segments, and for purposes of making decisions on the manner of allotment of resources to the various operating segments.

The standard will apply for annual reporting periods beginning on January 1, 2009, with retroactive adjustment of comparative figures for previous reporting periods. The initial adoptions of this standard has no effect on the company's financial reports. Regarding the Group's operating segments report according to IFRS 8, see note 3.

- **Amendment to IAS 28, Investments in affiliates**

The amendment provides that a decline in the value of an investment in an affiliate should be dealt with as a decline in value of a single asset, and that the amount of the decline in value may be cancelled in subsequent periods. The amendment will apply in respect of annual periods commencing January 1, 2009,. This amendment will not have any effect on the company's financial reports.

- **Amendment to IAS 40, Investment property**

The amendment provides that investment property under construction should be dealt with in accordance with the provisions of IAS 40. Prior to the amendment, the aforesaid investment property was dealt with pursuant to IAS 16 "Fixed assets". The amendment will apply in respect of annual periods commencing January 1, 2009. Implementation will be by prospective application. This amendment will not have any effect on the company's financial reports.

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

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

C. New financial reporting standards and clarifications that have been issued: (Cont.)

(2) Standards and clarifications issued by IASB and IFRIC, respectively, that have been published but have not yet become effective

A. IFRIC 17 - Distributions of non-cash assets to owners

The interpretation sets the accounting treatment of non-cash asset distribution to owners. The interpretation set, inter alia, the initial recognition date of liability to distribute non-cash assets to the entity's owners, and the measurement method of the liability amount up to its payoff.

Moreover, the interpretation repairs IFRS 5 instructions "Non-current assets held for sale and discontinued activities". Non-current asset (or realization group) which the entity obligated to distribute it to the shareholders as non-cash assets, will be classified subject to this interpretation, as held for distribution to owners.

The Interpretation applies to annual financial statements for periods beginning on or after January 1, 2009. Early adoptions is possible.

At this stage, the group's management can not estimate the effect of this interpretation on the company's financial reports.

B. Amendment to IFRS 5, Non-current assets held for sale and discontinued activities

The amendment provides that when a parent company is obliged to implement a plan for the sale of the controlling rights of a subsidiary, the assets and liabilities therein should be classified as held for sale, even when it intends to retain rights that do not give it control.

The amendment will be in effect in respect of reporting periods commencing January 1, 2010. The amendment allows for early application. An entity that is interested on applying the standards in prior periods is obliged to implement the provisions of IAS 27 (amended). Implementation will be by prospective application.

At this stage, the group's management can not estimate the effect of this amendment on the company's financial reports.

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

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

C. New financial reporting standards and clarifications that have been issued: (Cont.)

(2) Standards and clarifications issued by IASB and IFRIC, respectively, that have been published but have not yet become effective (Cont.)

C. IAS 27 (Amended), Consolidated and Separate Financial Statements

The standard prescribes the rules for the accounting treatment of consolidated and separate financial statements. Among other things, the standard stipulates that transactions with minority shareholders, in the context of which the company holds control of the subsidiary before and after the transaction, will be treated as capital transactions. In the context of transactions, subsequent to which the company loses control in the subsidiary, the remaining investment is to be measured as of the date that control is lost, at fair value, with the difference as compared to book value to be recorded to the statement of operations. The minority interest in the losses of a subsidiary, which exceed its share in shareholders' equity, will be allocated to it in every case, while ignoring its obligations and ability to make additional investments in the subsidiary.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2010 and thereafter. Earlier adoption is permitted, on the condition that it will be done simultaneously with early adoption of IFRS 3 (amended). The standard will be implemented retrospectively, excluding a number of exceptions, as to which the provisions of the standard will be implemented prospectively.

At this stage, the group's management can not estimate the effect of this standard on the company's financial reports.

D. IFRS 3 (Amended), Business combinations

The new standard sets the accounting treatment rules regarding business combinations, inter alia the standard sets measuring rules of conditional proceeds from business combinations, which will be measured as derivative financial instrument. Transactions costs, linked directly to the business combination will be attributed to the statement of operations at the date it occurred. Minority rights will be measured on the business combination date to the extent of their share in the assets' fair value, including goodwill, liabilities and contingent liabilities of the purchased entity, or to the extent of their share in the net assets' fair value as mentioned, excluding their share in the goodwill.

In business transactions, in which control is obtained after several acquisitions (purchase by steps), the assets, liabilities and contingent liabilities of the entity will be measured at fair value in the date which the control had been obtained, while attributing the difference between the book value of the investment to its fair value at the business combination date to the statement of operations.

The standard apply to business combinations start on January 1, 2010 and thereafter. Earlier adoption is permitted, on the condition that it will be done simultaneously with early adoption of IAS 27 (amended).

At this stage, the group's management can not estimate the effect of this standard on the company's financial reports.

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

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

C. New financial reporting standards and clarifications that have been issued: (Cont.)

(2) Standards and clarifications issued by IASB and IFRIC, respectively, that have been published but have not yet become effective (Cont.)

E. IFRS 7 Amendment, Financial instruments: Recognition

The amendment broadens the recognitions required relating liquidity risk and fair value measurement, while setting three stage hierarchy for presenting fair value measurements.

The amendment apply to annual financial reporting periods which start on January 1, 2009 and thereafter. The amendment will be implemented retrospectively. Earlier adoption is permitted.

This company evaluating the amendment effect on the company's financial reports.

F. IFRIC 9 Amendment, Reassessment of Embedded Derivatives and IAS 39, Financial instruments: Measurement Disclosures

The amendment clarify that while reclassifying a financial asset outside of "Fair value through the statement of operations" group, the need to separate its embedded derivatives will be examined.

The amendment apply to annual financial reporting periods which start on June 30, 2009 and thereafter. The amendment will be implemented retrospectively. Earlier adoption is permitted.

The group's management estimates that this amendment will not have any effect on the company's financial reports.

G. IFRS 8 amendment, operating segments

The amendment sets that a recognition of reportable segment asset measurement will be presented only if this information is presented repeatedly to the head operational decision maker.

The amendment apply to annual financial reporting periods which start on January 1, 2010 and thereafter. Earlier adoption is permitted.

The group's management estimates that this amendment will not have any effect on the company's financial reports.

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

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

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

| | September 30, | | December 31, |
|--------------------------------|---------------|--------|--------------|
| | 2009 | 2008 | 2008 |
| Actual CPI (1993 basis) | 205.21 | 199.54 | 198.42 |
| Known CPI (1993 basis) | 205.79 | 199.54 | 198.61 |
| In NIS: | | | |
| US Dollar | 3.76 | 3.42 | 3.80 |
| Pound Sterling | 6.05 | 6.29 | 5.55 |
| Canadian Dollar | 3.50 | 3.30 | 3.11 |
| Euro | 5.51 | 5.00 | 5.30 |
| Swiss Franc | 3.65 | 3.15 | 3.56 |

| | Nine months ended September 30, | | Three months ended September 30, | | Year ended December 31, |
|--|---------------------------------------|------|-------------------------------------|------|----------------------------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |

Change in exchange rate during the period then ended (in %):

| | | | | | |
|-----------------|--------|---------|--------|--------|---------|
| Actual CPI | 3.42 | 4.39 | 1.26 | 2.00 | 3.80 |
| Known CPI | 3.62 | 5.00 | 2.44 | 2.10 | 4.51 |
| US Dollar | (1.16) | (11.05) | (4.11) | 2.06 | (1.14) |
| Pound Sterling | 9.00 | (18.45) | (7.09) | (5.77) | (28.04) |
| Canadian dollar | 12.46 | (15.80) | 2.95 | (0.36) | (20.66) |
| Euro | 4.01 | (11.65) | (0.45) | (5.39) | (6.41) |
| Swiss Franc | 2.44 | (8.01) | 0.68 | (4.34) | 4.23 |

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

Note 3 - Geographical segments

A. IFRS 8 "Operating segments"

The Group implementing IFRS 8 "operating segments" (hereinafter- "IFRS 8") as of January 1, 2009. The standard prescribes that the segmental reporting of a company is based upon the data which is used by the management of a company for purposes of assessing the performance of the segments, and for purposes of making decisions on the manner of allotment of resources to the various operating segments. The company's management evaluated the precepts of IFRS 8 and came to a conclusion that there is no effect on the reportable segments report, the statement of operation and the reported financial statement of the group's segments.

B. The Group's reportable segments are

The Group recognizes reportable segment on the geographical organizational basis.

Segment A – produce its incomes in Israel.

Segment B – produce its incomes in Europe (Germany, Britain, Switzerland, Luxemburg Holland and Belgium)

Segment C – produce its incomes in North America (USA and Canada)

Because of the company's nature of business, the segments results are after financial expenses and including gains from assets realizations, and the segment liabilities includes identified financial liabilities to specific assets.

| | <u>Israel</u> | <u>Europe</u> | <u>North America</u> | <u>Adjustments (6)</u> | <u>Total</u> |
|--|--------------------------|----------------|--------------------------|------------------------|----------------|
| | <u>US\$ in thousands</u> | | | | |
| For the period of 9 months ended September 30, 2009 (Unaudited): | | | | | |
| Segment revenues from external clients (1) | <u>5,475</u> | <u>77,287</u> | <u>53,966</u> | <u>(1,394)</u> | <u>135,335</u> |
| Segment results from external clients | <u>(5,654)</u> | <u>16,663</u> | <u>(2,267)</u> | <u>(1,394)</u> | <u>7,348</u> |
| Including Adjustment of fair value, results of disposal of yielding properties and others, net (1) | <u>(2,005)</u> | <u>(3,736)</u> | <u>(2,392)</u> | <u>-</u> | <u>(8,133)</u> |
| For the period of 9 months ended September 30, 2008 (Unaudited): | | | | | |
| Segment revenues from external clients (2) | <u>8,595</u> | <u>88,375</u> | <u>61,070</u> | <u>(1,038)</u> | <u>157,003</u> |
| Segment results from external clients | <u>(3,629)</u> | <u>23,121</u> | <u>2,103</u> | <u>(1,038)</u> | <u>20,556</u> |
| Including Adjustment of fair value, results of disposal of yielding properties and others, net (2) | <u>(2,107)</u> | <u>2,307</u> | <u>(3,294)</u> | <u>-</u> | <u>(3,094)</u> |

(6) Represents mainly 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>America</u> | <u>Adjustments (6)</u> | <u>Total</u> |
|--|--------------------------|-----------------|-----------------|------------------------|-----------------|
| | <u>US\$ in thousands</u> | | | | |
| For the period of 3 months ended September 30, 2009 (Unaudited): | | | | | |
| Segment revenues from external clients (3) | <u>465</u> | <u>28,967</u> | <u>16,382</u> | <u>(1,394)</u> | <u>44,420</u> |
| Segment results from external clients | <u>(3,791)</u> | <u>6,846</u> | <u>(904)</u> | <u>(245)</u> | <u>1,906</u> |
| Including Adjustment of fair value, results of disposal of yielding properties and others, net (3) | <u>(1,882)</u> | <u>160</u> | <u>(1,356)</u> | <u>-</u> | <u>(3,077)</u> |
| For the period of 3 months ended September 30, 2008 (Unaudited): | | | | | |
| Segment revenues from external clients (4) | <u>2,085</u> | <u>27,226</u> | <u>18,749</u> | <u>(1,038)</u> | <u>47,023</u> |
| Segment results from external clients | <u>(4,939)</u> | <u>12,629</u> | <u>(321)</u> | <u>(647)</u> | <u>6,722</u> |
| Including Adjustment of fair value, results of disposal of yielding properties and others, net (4) | <u>(1,333)</u> | <u>(2,458)</u> | <u>(402)</u> | <u>-</u> | <u>(4,192)</u> |
| Year ended December 31, 2008: | | | | | |
| Segment revenues from external clients (5) | <u>8,886</u> | <u>91,071</u> | <u>65,270</u> | <u>(2,330)</u> | <u>162,896</u> |
| Segment results from external clients | <u>(932)</u> | <u>3,169</u> | <u>(13,558)</u> | <u>(2,330)</u> | <u>(13,651)</u> |
| Including Adjustment of fair value, results of disposal of yielding properties and others, net (5) | <u>(5,396)</u> | <u>(17,322)</u> | <u>(15,486)</u> | <u>-</u> | <u>(38,204)</u> |

(6) Represents mainly an investment in india.

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

Note 4 - Significant events during the report period

- A.** On March 2009, Electech Inc sold 11% of her rights in an office building in Chicago, USA. After the sale the company's holding percentage in this asset is 49%. Started from that date, the asset is classified as an investment in affiliate and the results from the asset classified as a part of the affiliated company's results. The profit derived to the company in the report period from the rights' sale as aforesaid is non-material,.
- B.** On March 2009, Electech Inc came to an agreement with HGI shareholders in which she will decreased 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. Further agreed that the company has an option, during the next five years beginning January 1, 2009, to raise the holding percentage in HGI back to 25% against a compensations amounted to \$ 4.875 million.
- C.** In accordance to a framework agreement signed by Electech, a foreign subsidiary of the company, in 2006 to acquire shopping centers leased to Hornbach chain and additional to four shopping centers which she is already owned, On January 2009, Electech acquired 45% of two shopping centers Hornbach, in Holland and one shopping center in Luxembourg.

The purchase price of all three assets (100%), before expenses amounting to € 62.2 million (approximately \$ 83.6 million), and relating expenses amounting to € 5.2 million (approximately \$ 7 million). The three shopping centers consists of 39,400 sq. mtrs. Leased area, are 100% occupied to Hornbach company which is one of the leading companies in the shopping center for DIY field. The rent period of each and everyone of the properties is 15 years, till January 2024. The renter has an option to extend the rent period.

The net annual rent fee (100%) from the three assets is € 4.63 million (approximately \$ 6.2 million). The rent fee has a mechanism to rent fee rise according to the customer price index. All current management and maintenance expenses regarding the assets are being paid by the renter.

A financial institution has extended five years loan to finance the transaction (100%) € 47.6 million (approximately \$ 64 million) with fixed interest, whose rate is 4.46%. The loan is secured by a first-priority fixed lien on the asset and receipts, without the right of recourse for the Company. In addition another financial institution has extended five years loan amounted to € 6.75 million (approximately \$ 9 million) with fixed interest, whose rate is 7%. The loan is secured by a second-priority fixed lien on the asset and receipts, without the right of recourse for the Company.

- D.** On February 2009, Electech acquired through a subsidiary a part of a loan granted to a jointly-controlled company (70%) of Electech from a foreign financial institute to buy assets in Germany and Holland in May 2007. The book value of the repaid loan (100%) is € 7 million (approximately \$ 10.4 million) against actual payment of € 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.

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

Note 4 - Significant events during the report period (Cont.)

E. According to a principles agreement sign on February 22, 2009, and it's update on May 18 ,2009 between the company and Amot Investments Ltd. (hereinafter – Amot), in which the company will sale to Amot its full rights the jointly-controlled companies as detailed below:

1. 49% from Ziviel Investments Ltd. Shares (hereinafter – Ziviel).
2. 50% from Roni do Investments Ltd. Shares.

The agreement had completed on June 22, 2009. The cash flow (gross before tax) regarding the sale of the two assets and is \$ 16.7 million. The company didn't recognize a significant profit from this sale since most of the profit recognized in previous periods under the fair value adjustment of the sold assets.

F. On June 2009, the company's foreign subsidiary, Electech Real Estate B.V (hereinafter – the subsidiary) had sold it's rights (50%) in a company which hold the asset in Geneva, Swiss. The cash flow (before tax) regarding to the sale of the rights and after repaying their loans and the sale's expenses is 5.3 million F.S. (approximately \$ 5.1 million). The profit from the increase of fair value assets recognized in previous periods . At the balance sheet period, the company had credited to the sale's price, the sale's expenses and the loss from revaluation of the fair value to the sale's price which is totaling \$1.5 million (after tax).

G. On July 23 ,2009 the Knesset passed the Economic Efficiency Law (Amendments of legislation for the implementation of the economic plan for the years 2009 and 2010) -2009, which determined, an additional gradual reduction of the tax rate for companies to 18% in the tax year 2016 and thereafter. In accordance with the said amendments, the tax rates for companies in the 2010 tax year and thereafter, are as follows: in the 2010 tax year – 25%, in the 2011 tax year – 24%, in the 2012 tax year – 23%, in the 2013 tax year – 22%, in the tax year 2014 – 21%, in the tax year 2015 – 20%, and in the 2016 tax year and thereafter – the tax rate for companies will be 18%.the influence of the said amendments had an impact in the third quarter of this year. The change of the tax rate had no material influence on the results of the company's operations.

H. The group is being in a process of selling her rights in a Yielding asset in Canada which the loan for him stand on 18.7 million Canadian dollar. The value is expected to be 28.5 million Canadian dollar The predicted cash flow from the completion of the business transaction and repayment of the loan and before tax is 9 million Canadian dollar. Most of the expected profit was already realized in previous periods in the framework of the compatibility in the fair value of the sold asset. Following the selling process and the group strategic decision to realize the rights in the asset, the company classifies the asset to the current assets as assets to be realized.

I. On September 29, 2009 the grading of bonds (Series A and B) was lowered to a A-/negative by Maalot.

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

Note 4 - Significant events during the report period (Cont.)

J. Repayment of bonds:

On August 17, 2009 the company paid an annual fund of total of approximately \$ 15 million nominal value from the bonds (Series A). this amount is linked to the CPI and on the payment date, the amount was situated on total of approximately \$ 16.8 million.

On October 1, 2009 the company paid an annual fund of total of approximately \$ 1.5 million nominal value from the bonds (Series B). this amount is linked to the CPI and on the payment date, the amount was situated on total of approximately \$ 1.6 million.

K. On 24.9.2009 a foreign subsidiary company (hereinafter-"subsidiary company") 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 \$ 262.6 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. After the signing of the management agreement, the subsidiary company presents her investments in the companies which are holding the assets as of September 30, 2009 according to the Equity method.

Note 5 - Post balance sheet date events

A. on October 2009 the company realized her rights in an assets in Israel (BVR building). The cash flow (after tax) that is expected to flow to the company as a result of the realization of the rights above mentioned is approximately \$ 5.6 million. Most of the expected profit was already realized in previous periods in the framework of the compatibility in the fair value of the sold asset. Following the company's decision for realizing her rights in the asset from September 2009, the company classified these rights to current assets as assets to be realized.

B. 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.

C. Following to the mentioned in note 23J to the financial statements as of December 31,2008, regarding the settlement in Elco group, the board of directors decided on November 26 to cancel the settlement with Elco group and stated that every placing upright of a loan or a guarantee will be subject the relevant present time law instructions.

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

Note 6 – Post balance sheet date events Structural change in "Elco"

1) Split of the parent company holdings in the company and distributing her holdings as dividend in kind

On September 24, 2008 the Audit Committee and Board of Directors of Electra Ltd (hereinafter - "the parent company") approved an overall process for a change in the holdings structure in the parent company, by means of split and merger, within the framework of which the activities of the company and the parent company income generating real estate asset will be "moved aside" such that at the end of the process the company will turn from being the subsidiary of the parent company to being its sister company (hereinafter – "the split and merger arrangement"). On September 28, 2008 an application was presented in the Tel-Aviv-Jaffa District Court for the approval of the arrangement in accordance with sections 350 and 351 of the Companies Law – 1999 (hereinafter – "the application"). On October 6, 2008, a decision was given by the court on the application for the arrangement (Case 2557/08), according to which the calling of the general meeting, whose calling was requested within the framework of the application, was approved. On December 30, 2008, following the receipt of the approvals of the audit committee and the board of directors of the company, an application was filed in the Tel-Aviv-Jaffa District Court by the company for a change in the determining date, the timing of the split and the timing of the determining balance sheet from September 30, 2008 to December 31, 2008. On January 1, 2009 the court approved this application. 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. 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 (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. 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 that 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.

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

Note 6 – Post balance sheet date events Structural change in "Elco" (Cont.)

2) The change in the holdings structure arrangement

As part of the structural change the parent company will divide as dividend in kind, her acquisitions in the company, along with the generating real estate asset (including the taken obligations for the as stated asset up to its fair value) (hereinafter together – generating real estate asset), to a new company, which was established for the structural change, and in the first phase, its structural holdings is the same as the parent company. In the second phase (which will be carried out immediately and close to the timing of the split) the new company will merge into the company, in a manner that the company will absorb the assets and liabilities of the new company, by the way of eliminating the new company, without dissolution of the company. With the completion of the merger, the company will remain public, and held directly by Elco Holdings Ltd, by her shareholders pre the change in the holdings structure and by the parent company shareholders.

On September 13, 2009 a request was submitted by the company to the Tel-Aviv-Jaffa District court, within the request framework, the court was requested to approve the outcome of the above mentioned general meetings, and to instruct on the split of the company from Electra.

On September 14, 2009 the court approved the request. According to section 3 of the settlement ordinance the request for the outcome of the general meetings was brought to the attention of the material shareholders and the material creditors of the company.

On September 30, 2009 After receiving approval of all the authorized authorities including the court's approval, the structural change was made in Electra group, the company's holder of controlling interest. Within the framework of the structural change, the company was being split from Electra and turning from being Electra's subsidiary to being Electra's sister company. Within the framework of the split and merger arrangement it was decided as stated, that the parent company will distribute in a manner of dividend in kind, a generating real estate and obligations because of this asset up until its fair value, in addition the parent company will place a loan to the company, and change the terms of an existing loan, to be detailed:

- a) Distribution as dividend in kind of the generating real estate (in accordance with its book value in the parent company financial reports, in the timing of the completion, as of September 30, 2009 sum of approximately 90 million NIS and compatible with an evaluation from May 17, 2009), and loans (current and non-current, including balance of interest to pay due to the given loans) which are directly attributed to the hereby asset in identical amount.

In addition, in the framework of the structural change arrangement, it was decided that for the payment of the short term loans (including the interest to pay), that will be transferred to the company (as of September 30, 2009 sum of approximately 15.6 million NIS), the parent company will give the company a long-term loan which will be paid in September 30, 2013 plus an interest which will reflect the capital cost price together with 2%, even though the company will have the right to make an early payment of the entire sum of the loan, or part of it, without any obligation and/or penalty, in a written notice which will be given 30 days in advance to the parent company. The capital cost price is a specific credit price which was taken by the parent company from a financial institution for giving the mentioned loan (which is variable cost).

- b) In the year 2005 the parent company gave the company loan in the amount of 25 million Canadian dollars, for payment in three different timing, as of September 2010 until September 2012, the loan bares interest of Canadian Libor (three months) together with space of 1.1%. At the timing of the given loan, it was agreed upon that the parent company would have the right to demand the premature payment of the loan, along with the existence of certain terms (such as the change in the holdings structure which takes place in the framework of the split and merger arrangement).

After negotiation the parties has agreed on 19.7.09 as follows: Electra would not demand immediate payment of the loan and the cost of the loan is in terms of back to back with the loan terms versus the financial institution which gave Electra the loan. As of the date of the business completion the loan would bare an interest of the capital cost price (as of the date of this report, the cost of raising the linked Canadian dollar credit is three months Canadian libor increased by 1.83% compared with the above mentioned increase of 1.1%) with space of 2%.

The payment dates of the loan in respect of the original given loan would not be changed, the loan plus interest will be paid at the following dates: \$ 7,093 million until September 30, 2010; \$ 7,983 million until September 30, 2011; \$ 7,983 million until September 30, 2012. Electra would not have the right to demand premature payment of the comprehensive loan amount or part of it,

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

without without any obligation and/or penalty, provided that Electra wouls receive a written notice 30 days in advance.

Note 6 – Post balance sheet date events Structural change in "Elco" (Cont.)

3) Tax aspects concerning the change in the holdings structure arrangement

On December 31, 2008 the company turn to the Israeli Tax Authority in an application to approve that the change in the holdings structure arrangement will be carried out with tax exemption according to Section E of the Income Tax Ordinance, subject to withstanding to the determined terms .According to the Israeli Tax Authority decision (hereinafter – "the decision") as of August 23, 2009 the change in the holdings structure arrangement will be carried out with tax exemption and the stated date for tax requirements in order to make the change in holdings is December 31, 2008. According to the decision and subject to the instructions of Section E2 of the Tax Ordinance in the framework of the change in holdings, certain limitations will be imposed among others according to Section E2 instructions including the ability of the company and the parent company to deduct tax losses lengthwise of five year period effective as of 2009 and restrictions concerning the sell of the company's shares by the controlling shareholders for two years and subject to the tax relief in the Income Tax Ordinance. As part of the change in holdings the parent company's tax losses will be divided in the split date (December 31, 2008) between the company and the parent company according to the ration of equity of the companies.

Note 7 – The attachment of the financial statements of Investee Company

The financial statements of the company PBEL Real Estate Limited has not Been attached to the company's financial statements in accordance with Regulation 44C(1) of the Securities Regulation (Periodic and Immediate Reports) – 1970.