

# Discount Investment Corporation Ltd.

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## Interim Consolidated Financial Statements as at March 31, 2008 (Unaudited)

### Contents

	<i>Page</i>
Directors' Report to the Shareholders .....	2-25
Auditors' Review Letter .....	26
Consolidated Balance Sheets .....	27-28
Consolidated Statements of Income .....	29
Consolidated Statement of Recognized Income and Expense .....	30
Consolidated Statements of Cash Flows .....	31-33
Notes to the Financial Statements .....	34-85
Annex to the Financial Statements .....	86-87

Financial statements attached: GVT (Holding) N.V.

*All these statements are translations from the Hebrew.*

# Discount Investment Corporation Ltd.

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## Board of Directors' Report for the First Quarter of 2008

We are pleased to present the condensed unaudited financial statements of Discount Investment Corporation Ltd. for the first quarter of 2008 which ended on March 31, 2008.

Discount Investment Corporation (the "Company"), a member of the IDB Group, is one of Israel's largest holding companies, which invests in companies that operate in a variety of areas. The Company together with its wholly owned subsidiaries ("DIC") generally invests in investee companies in a manner that vests in it influence on their direction and management. See the annex to the financial statements for details on the holdings of DIC.

**The net earnings in the financial statements relate to the Company's equity holders and to the minority interest.**

**The net earnings presented in this report relate to the Company's equity holders net of the share of the minority, unless stated otherwise.**

### 1. Business Operation Results

The Company is a holding company, which mainly holds shares of investee companies. As such, its net earnings mainly include and are affected by the following components:

- The Company's share of the earnings of investee companies, net.
- Net realization gains, adjustment of the value of investments and other non-recurring effects of the Company and its investee companies.
- The activity of the Company's headquarters, which includes net financing expenses, general and administrative expenses and income from management fees.

The earnings of the Company may fluctuate a great deal between the various reporting periods, mainly due to the timing of realizing investments by the Company and its investee companies, changes in the financing expenses of the Company and its investee companies, the amount of which is affected by the net amount of debt, the linkage bases of the debt and net financial assets, and the rate of change in the Consumer Price Index and the exchange rate of the dollar in the reported period.

The earnings that are attributable to the equity holders of the Company and the minority interest in the first quarter of 2008 amounted to some NIS 365 million, compared with earnings of NIS 1,113 million in the first quarter of 2007.

In the first quarter of 2008 the net earnings of the Company amounted to some NIS 191 million and the basic earnings per share amounted to some NIS 2.3, compared with earnings of some NIS 978 million and basic earnings per share of some NIS 12.6 in the first quarter of 2007.

The Company applied the provisions of IFRS 1 in the financial statements for the first quarter of 2008 and it presented an opening balance sheet as at January 1, 2007, a balance sheet as at December 31, 2007 and a statement of income for the year then ended that were prepared in accordance with IFRS. Furthermore, in Note 9 to the financial statements for March 31, 2008 the Company presented reconciliation between the reporting according to Israeli GAAP and the reporting according to IFRS for the three months ended March 31, 2007. See Note 30 to the financial statements for the year 2007 for more details on this matter.

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

### Composition of the business operation results of DIC:

	First quarter		Year
	2008	2007	2007
	Unaudited		Audited
	NIS millions		
DIC's share of the business operation results of investee companies	192	367	656
Gain from realization of investments less reductions, net	174	664	1,316
Financing, management and other expenses, net	(175)	(53)	(307)
Net earnings	191	978	1,665
Basic earnings per share (NIS)	2.3	12.6	21.2

### 1.1 DIC's share of the business operation results of investee companies

	DIC's share of earnings (loss) for the first quarter		
	2008	2007	Change
	NIS millions		
Cellcom	143	143	0
Property and Building Corp.	51	32	19
Shufersal	31	41	(10)
Given Imaging	1	(0)	1
Koor	(4)	53	(57)
Elron	(27)	24	(51)
Other companies	47	121	(74)
Excess cost	(50)	(47)	(3)
<b>Total</b>	<b>192</b>	<b>367</b>	<b>(175)</b>

### 1.2 Realization of investments and reductions

	First quarter	
	2008	2007
	NIS millions	
Gain from realization of investments less reductions, net	174	664

In the first quarter of 2008 this item mainly included a capital gain in the amount of some NIS 172 million from the sale of some 3.4% of the shares of Cellcom.

In the first quarter of 2007 this item mainly included a capital gain in the amount of some NIS 614 million from the sale of some 19.5% of the shares of Cellcom in the framework of a public offering on the New York stock exchange.

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

### 1.3 Management, financing and other expenses, net

	<u>First quarter</u>	
	<u>2008</u>	<u>2007</u>
	<u>NIS millions</u>	
Management, tax and other expenses, net	(14)	(24)
Financing expenses, net	(161)	(29)
<b>Total management, financing and other expenses, net</b>	<b>(175)</b>	<b>(53)</b>

The decrease in management, financing and other expenses, net, in the first quarter of 2008 was due mainly to a decrease in tax expenses whereas in this quarter the increase in financing expenses, net, was due mainly to a loss of some NIS 88 million in respect of the dollar exposure of the Company and the expense the Company recorded this quarter in respect of linkage differences on the Company's CPI-linked liabilities. In the corresponding quarter of last year the Company recorded financing income in respect of its CPI-linked liabilities as a result of the decrease in the CPI in that quarter.

## 2. Segment Data

### 2.1 Analysis of business operation results according to business segments

	<u>First quarter</u>		<u>Year</u>
	<u>2008</u>	<u>2007</u>	<u>2007</u>
	<u>NIS millions</u>		
Communications	187	254	653
Technology	(38)	19	(105)
Retail and services	31	41	108
Real estate	69	32	83
Industry	(57)	21	(83)
	<b>192</b>	<b>367</b>	<b>656</b>

#### 2.1.1 Communications segment

	<u>First quarter</u>	
	<u>2008</u>	<u>2007</u>
	<u>NIS millions</u>	
Contribution of the segment	187	254

The decrease in the results of the segment between the quarters was due mainly to Company's share of the capital gain recorded by GVT in respect of the public offering of its subsidiary in Brazil that was included in the contribution of the segment in the first quarter of last year. There was no change in the Company's share of the earnings of Cellcom despite the decrease in the Company's holding rate from some 59% in the first quarter of 2007 to some 53% in the first quarter of 2008.

Presented below is a description of the business activity of the principal company in the segment in the reported period:

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

**Cellcom (held at the rate of some 53%), Israel's largest cellular communication services provider, reported the following business operation results:**

	First quarter		Increase %
	<u>2008</u>	<u>2007</u>	
	NIS millions		
Revenues	1,595	1,438	11
EBITDA	593	534	11
Operating profit	424	347	22
Financing expenses	(45)	(42)	7
Net earnings	273	208	31

In the first quarter of 2008 the revenues of Cellcom increased by 11% in comparison with the corresponding quarter of last year. The increase in revenues derived from an increase of 5.8% in revenues from services, which amounted to some NIS 1,358 million, as well as an increase of 53.9% in revenues from sales of end user equipment, which increased to some NIS 237 million in the first quarter of 2008. The increase in revenues from services is mainly attributed to an increase of some 9% in use of air time (outgoing and incoming), as a result of an increase in the number of Cellcom's subscribers and in the monthly average minutes of usage per subscriber. The revenues also reflect an increase of 41% in revenues from content and added value services (including SMS) in the first quarter of 2008 compared with the corresponding quarter of last year, to the amount of some NIS 148 million. The increase in revenues from services was offset in part by the decrease in interconnect fees and by the continuing erosion in air time rates. The increase in revenues from sales of end user equipment was mainly due to the greater quantity of instruments that were sold in the first quarter of 2008 and to an increase in the average selling price per instrument, as a result of a higher number of third generation instruments.

The EBITDA in the first quarter of 2008 was 11% higher than in the corresponding quarter of last year. The rate of EBITDA from total revenues was 37.2% in the first quarter of 2008, compared with 37.1% in the corresponding quarter of last year. The operating profit for the first quarter of 2008, which was 22.2% higher than in the corresponding quarter of last year, includes, inter alia, non-recurring gains in the amount of some NIS 19 million from the sale of underground ducts for optical fibers and the sale of land in Modi'in.

As at the end of March 2008 Cellcom had some 3.096 million customers. In the first quarter of 2008, Cellcom acquired some 23,000 new customers, net, and some 104,000 new customers, net, were added to its third generation customers' base, which reached some 523,000 customers as at the end of March 2008.

### **2.1.2 Technology segment**

	First quarter	
	<u>2008</u>	<u>2007</u>
	NIS millions	
Contribution of the segment	(38)	19

The change in the results of the segment between the quarters was mainly due to the deterioration in the business operation results of Elron.

Presented below is a description of the business activity of the principal companies in the segment in the reported period:

The information presented below in respect of Elron and Given Imaging is based on IFRS.

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

**A. Elron (held at the rate of some 49%) reported the following business operation results:**

	<u>First quarter</u>	
	<u>2008</u>	<u>2007</u>
	\$ millions	
Loss	(16)	12

In the first quarter of 2008 and 2007 the main effect on the results of Elron was as follows: Elron's share of losses of its investee companies. In addition, Elron recorded a gain in the corresponding quarter of last year from the merger of Netvision, Barak and Globecall.

**B. Given Imaging (held at the rate of some 16% directly, and 27% directly and indirectly) reported the following business operation results:**

	<u>First quarter</u>		<u>Increase</u>
	<u>2008</u>	<u>2007</u>	<u>%</u>
	\$ millions		
Sales	27	23	18
Operating loss	(1)	(2)	
Net earnings (loss)	1	(1)	

Given Imaging reported an improvement in its business operation results for the first quarter of 2008 compared with the corresponding quarter of last year. The improvement was mainly due to an increase in revenues. Nevertheless, there was a decrease in the company's profit rates.

**2.1.3 Retail and services segment**

	<u>First quarter</u>	
	<u>2008</u>	<u>2007</u>
	NIS millions	
Contribution of the segment	31	41

The decrease in the results of the segment between the quarters was mainly due to a decrease in the rate of holding in Shufersal.

Presented below is a description of the business activity of the principal company in the segment in the reported period:

**Shufersal (held at the rate of some 40%) reported the following business operation results:**

	<u>First quarter</u>		<u>Increase</u>
	<u>2008</u>	<u>2007</u>	<u>%</u>
	NIS millions		
Revenues	2,585	2,429	6
Gross profit	697	646	8
Operating profit	*175	108	62
Net earnings	72	72	0

\* Including change in fair value of investment property.

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

Shufersal continued to report an improvement in its business operation result for the first quarter of 2008 compared with the corresponding quarter of last year. Shufersal recorded an increase of 6.4% in the retail segment sales, which was due to the mix of products sold and to an increase in selling prices as a result of an increases of suppliers' product prices. The first quarter of 2008 was not affected by the sales of the Passover holiday compared with the results of the first quarter of 2007 that reflected the full effect of the holiday. There was an increase of 5.2% in same store sales. The increase in gross profit and the improvement in its rate from sales was mainly due the increase in sales, the sales mix and the Passover holiday campaigns being fully reflected in the corresponding quarter of last year. The improvement in operating profit was due to the increase in the revenues of Shufersal, to the improvement in the gross profit and to an increase of some NIS 45 million in the fair value of investment property.

The operating profit before depreciation and amortization and the valuation of real estate (EBITDA) amounted in the quarter to some NIS 189 million, about 7.3% of sales, compared with some NIS 171 million and about 7% of sales in the corresponding quarter of last year. Shufersal recorded financing expenses of some NIS 43 million in the first quarter of 2008 compared with some NIS 11 million in the corresponding quarter of last year, as a result of the revaluation of hedge transactions and an increase in inflation in the current quarter compared with a decrease in the corresponding quarter of last year. Furthermore, the tax expenses in the first quarter of 2008 amounted to some NIS 59 million compared with some NIS 23 million in the corresponding quarter of last year as a result of the improvement in earnings before tax and a tax provision in the amount of some NIS 25 million in respect of the sale of Shufersal's holding in Israel Kanyonim Ltd.

### 2.1.4 Real estate segment

	<u>First quarter</u>	
	<u>2008</u>	<u>2007</u>
	NIS millions	
Contribution of the segment	69	32

The improvement in the results of the segment between the quarters is mainly due to the improvement in the business of Property & Building Corporation and to an increase in DIC's holding in Property & Building Corporation from 61% last year to 68%.

Presented below is a description of the business activity of the principal company in the segment in the reported period:

**Property & Building Corporation (held at the rate of some 68%) reported the following business operation results:**

	<u>First quarter</u>		<u>Increase</u>
	<u>2008</u>	<u>2007</u>	<u>(decrease)</u>
	NIS millions		%
Revenues	358	181	98
Earnings before taxes	125	84	49
Net earnings	79	52	52

The main improvement in the business operation results of Property & Building was due to an increase of some 115 million in revenues from sales of apartments and real estate and to an increase of some NIS 24 million in the fair value of investment property compared with the corresponding period of last year.

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

### 2.1.5 Industry segment

	<u>First quarter</u>	
	<u>2008</u>	<u>2007</u>
	NIS millions	
Contribution of the segment	(57)	21

The main change in the results of the segment between the quarters was due to a decrease in the net earnings of Koor and to an increase in the amortization of excess cost attributable to Koor.

#### **Koor (held at the rate of some 49.5%) reported the following business operation results:**

	<u>First quarter</u>	
	<u>2008</u>	<u>2007</u>
	NIS millions	
Earnings	4	122

The main reason for the decrease in the net earnings of Koor for the first quarter of 2008 is an increase in net financing expenses, following the sharp decline in the exchange rate of the shekel in relation to the dollar that caused an erosion in the dollar monetary assets of Koor.

#### **Condensed business operation results of Makhteshim Agan (some 40% held by Koor):**

	<u>First quarter</u>		Increase (decrease) %
	<u>2008</u>	<u>2007</u>	
	\$ millions		
Revenues	722	553	31
EBITDA	155	109	43
Operating profit	134	85	58
Net earnings	91	72	26

Makhteshim Agan reported a sharp improvement in its business operation results for the first quarter of 2008 compared with the corresponding quarter of last year. Its results for the first quarter of 2008 were affected by the following trends in the plant protection market and in Makhteshim Agan: (a) The demand for the products of Makhteshim Agan increased in the quarter due to the increase in the prices of agricultural products, mainly as a result of the continued increase in the standard of living around the world, particularly in developing areas such as China and India, and a change in the nutritional habits of the population in those areas. The increase was also affected by the increase in global demand for substitute oil products, manufactured by using sugar canes and corn. (b) For the first time in many years there was an increase in the average sales prices of the products of Makhteshim Agan. This trend had a positive effect of increasing both the revenues of Makhteshim Agan from the sales of products and the gross profits of Makhteshim Agan. (c) The weather conditions during the current quarter were relatively comfortable in most of the geographical areas in which Makhteshim Agan operates, and this led to an increase in the demand for plant protection products. (d) Makhteshim Agan reports its results in dollars, and therefore the strengthening of the currencies (mainly the euro) in relation to the dollar, led to an increase in the revenues of Makhteshim Agan in dollar terms, while the strengthening of the shekel increased local expenses in Israel. (e) Conversely, the high price level of oil resulted in the prices of raw materials and energy continuing to rise, which reduced part of the improvement in the gross profit of Makhteshim Agan. In the current quarter Makhteshim Agan reported EBITDA of some \$ 155 million (some 21.5% of sales) compared with some \$ 109 million (some 19.7% of sales) last year. The improvement in the rate of EBITDA was due to

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

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an improvement in gross profit as a result of an increase in turnover and of the aforementioned factors and a low increase in operating expenses compared with the increase in sales.

### **3. Major Changes in the Holdings of the Company and Investee Companies in the First Quarter of 2008**

- 3.1 In January 2008 the Company sold some 3.4% of the outstanding share capital of Cellcom for a total amount of some NIS 330 million. As a result the Company recorded in the first quarter of 2008 a gain of some NIS 172 million and its holding in Cellcom decreased to 52.6% in equity and 58.1% in voting.
- 3.2 In the course of the quarter the Company purchased some 3.1% of the outstanding share capital of Property & Building for some NIS 62 million. Subsequent to this purchase, the Company holds some 68% of the equity and voting rights in Property & Building.
- 3.3 In March 2008 the board of directors of Koor authorized making financial investments from time to time in marketable shares of European financial institutions, up to the total amount of NIS 1.5 billion, and also that Koor would enter into an agreement to receive a designated credit facility from a large international investment bank for the purpose of purchasing such shares. For further details see Paragraph 4a of Note 3A to the financial statements.
- 3.4 In January and February 2008 the Company purchased on the stock exchange some 2.7% of the outstanding share capital of Koor for some NIS 110 million. Following this purchase, the Company holds some 49.5% of the equity and voting rights in Koor.
- 3.5 In February 2008, GVT (Holding) N.V. sold 3.5% of the share capital of the Brazilian company held by it at the rate of 26.4%, for some 167 million Brazilian Real. As a result of the transaction, the Company recorded in the first quarter of 2008 a gain of some NIS 37 million in respect of the Company's share of the anticipated gain of GVT on the transaction. For further details see Paragraph 5 of Note 3A to the financial statements.

### **4. Events Succeeding the Date of the Balance Sheet**

The major subsequent to balance sheet date events are set forth in Note 6 to the financial statements and include the following events which are particularly noteworthy:

- 4.1 In May 2008 Netvision entered into an agreement with Bank Leumi le-Israel B.M. for the purchase of the bank's holding (some 15%) in the share capital of HOT – Telecommunication Systems Ltd., a public company the shares of which are traded on the Tel Aviv Stock Exchange. In accordance with the agreement, Netvision will pay the bank a total amount of some NIS 480 million for the acquired shares. The closing of the transaction is contingent upon the fulfillment of certain conditions and there is no certainty that it will be completed. For further details see Note 6A to the financial statements.
- 4.2 In April 2008 the Company completed an acquisition of the entire holding of Praxair Inc. (about 50%) in Maxima Air Separation Center Ltd. for NIS 85 million. As a result, the Company holds some 75% of the share capital and some 77% of the voting rights in Maxima, and as from the second quarter of 2008 the Company shall fully consolidate the financial statements of Maxima in its financial statements.

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

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As from the beginning of the second quarter of 2008, the exchange rate of the dollar decreased by an additional 4.92% and the CPI increased by a total of 1.76% in March and April 2008. Such trends - the rise in the CPI and the decrease in the exchange rate of the dollar - have an adverse effect on the business operation results of the Company. This is due, inter alia, to the volume of the CPI-linked debt of the Company and to its cash balances held in instruments that are not linked to the CPI and in dollars. The investee companies of the Company may also be adversely affected by these trends, so that also in this respect the Company may be adversely affected. The effect of these factors on the results of the Company in the second quarter of 2008, which has not yet ended, cannot be assessed at this point. To the extent that these trends continue, their negative effect on the business operation results of the Company will increase. See also Section 7.1B hereunder.

The effect of the increase in the CPI on the Group is mainly an accounting effect, and it does not have a material effect on its current cash flows. This effect is also not anticipated to impair the Group's business operations. The stability and strength of the Group are based on the solid business operations of the Group's principal investee companies and on the high cash balances of the Company and its investee companies that ensure high liquidity and make it possible to take advantage of business opportunities.

The Company's assessment regarding its business condition and financial strength is forward-looking information, as defined in the Securities Law, which is based on the information in the possession of the Company as at the date of this report regarding the liquid sources and business operations of the Group's companies. This assessment may not materialize, in all or in part, or it may materialize in a significantly different manner than anticipated. The principal factors that may have an effect on this are material negative changes in the various factors that affect the business condition of the Group's companies and/or the materialization of any of the risk factors indicated by the Company. In addition, the Company's assessment regarding the accounting effect of the increase in the CPI and the decrease in the value of the dollar is forward-looking information, as defined in the Securities Law, which is based on data that was made public. The accounting effect of the increase in the CPI and the decrease in the value of the dollar on the business operation results of the Company in the second quarter of 2008 may change as a result of fluctuations in the CPI and in the value of the dollar until the end of the said quarter. It should be noted that the business operation results of the Company are affected by additional factors – mainly the Company's share of the earnings of investee companies, possible realizations of investments, and general and administrative expenses.

### **5. Dividend**

On the date of approval of the financial statements, the Company's Board of Directors decided to distribute a cash dividend in the total amount of NIS 150 million, constituting NIS 1.76 per share. The dividend will be distributed on June 12, 2008 with the record date being May 27, 2008 and the ex-day being May 28, 2008.

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

### 6. Financial Position and Financing Sources

6.1	As at March 31, 2008	As at December 31, 2007
	NIS millions	
Total assets in the consolidated balance sheet	26,853	26,866
Investments in affiliated companies in the consolidated balance sheet	4,474	4,634
Equity (including minority interests)	7,569	8,068
Surplus of current assets over current liabilities in the consolidated balance sheet	5,319	4,791
Surplus of financial liabilities over financial assets of DIC	(2,315)	(2,473)

### 6.2

	<u>2008</u>	<u>First quarter</u> <u>2007</u>
	NIS millions	
Proceeds from the realization of investee companies of DIC	330	1,590
Dividends from investee companies of DIC	52	6
Investments in investee companies of DIC	178	16

### 7. Report Regarding Exposure to and Management Methods of Market Risks

#### 7.1 The Company

In the reported period there were no material changes in the Company's exposure to market risks and in the methods of managing such risks in relation to the Company's report on this matter in the directors' report of the Company for 2007 that was published on March 23, 2008.

A. The Company does not manage its investee companies' risks. Below is the linkage balance and derivatives' positions of DIC as at March 31, 2008 for which the Company manages the currency exposure.

B. Linkage balance of the Company as at March 31, 2008 (in NIS millions):

	Linked to the Consumer Price Index	In dollars or linked thereto	Unlinked	Non- monetary items	Total
<b>Assets</b>					
Investments in affiliates	-	-	-	7,701	7,701
Other non-current assets	2	-	5	-	7
Fixed assets, investment property and other assets	-	-	-	14	14
Current assets	150	1,001	2,556	-	3,707
<b>Total assets</b>	<b>152</b>	<b>1,001</b>	<b>2,561</b>	<b>7,715</b>	<b>11,429</b>

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

	<u>Linked to the Consumer Price Index</u>	<u>In dollars or linked thereto</u>	<u>Unlinked</u>	<u>Non- monetary items</u>	<u>Total</u>
<b>Liabilities</b>					
Long-term financial liabilities (including maturities)	5,366	71	39	-	5,476
Other long-term liabilities	-	-	10	50	60
Current liabilities	192	5	144	-	341
<b>Total liabilities</b>	<b>5,558</b>	<b>76</b>	<b>193</b>	<b>50</b>	<b>5,877</b>
<b>Assets less liabilities, net</b>	<b>(5,406)</b>	<b>925</b>	<b>2,368</b>	<b>7,665</b>	<b>5,552</b>

Subsequent to balance sheet date and until the date of publishing these financial statements there was a decline of 4.92% in the exchange rate of the dollar, and the CPI increased by a total of 1.76% in March and April 2008. These changes have a negative effect on the results of the Company.

The currency exposure of the Company was discussed in meetings of the Company's audit committee and Board of Directors held during the quarter and after it ended.

C. Derivatives' positions of DIC as at March 31, 2008 (in NIS millions):

	<u>CPI/NIS</u>			
	<u>Par value</u>		<u>Fair value</u>	
	<u>Up to one year</u>		<u>Over one year</u>	
	<u>Long</u>	<u>Long</u>	<u>Long</u>	<u>Long</u>
1. Futures contracts for hedging purposes - not recognized for accounting purposes (1)	1,950	17	200	3

(1) These contracts are intended to protect CPI linked liabilities of DIC, such that if the CPI were to rise at a higher rate than that provided in the contract, DIC would receive the difference and in the reverse case DIC would pay the difference.

	<u>Dollar/NIS</u>			
	<u>Up to one year</u>			
	<u>Par value</u>		<u>Fair value</u>	
	<u>Long</u>	<u>Short</u>	<u>Long</u>	<u>Short</u>
2. Derivatives for hedging purposes – not recognized for accounting purposes: Future purchases of dollars	212	226	(1)	(1)

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

D. Consolidated linkage balance as at March 31, 2008 (in NIS millions):

	Linked to the Consumer Price Index	In dollars or linked thereto	IN euro or linked thereto	In other foreign currency or linked thereto	Unlinked	Non- monetary items	Total
<b>Assets</b>							
Investments in affiliates	-	-	-	-	-	4,474	4,474
Other non-current assets	33	-	-	-	1,215	102	1,350
Fixed assets, investment property, inventory and other assets	-	-	-	-	2	12,576	12,578
Current assets	171	1,419	23	28	5,652	1,158	8,451
<b>Total assets</b>	<b>204</b>	<b>1,419</b>	<b>23</b>	<b>28</b>	<b>6,869</b>	<b>18,310</b>	<b>26,853</b>
<b>Liabilities</b>							
Long-term financial liabilities (including maturities)	14,473	1,012	11	13	187	-	15,696
Other long-term liabilities (including maturities)	-	-	-	-	42	743	785
Current liabilities	330	170	3	35	1,879	386	2,803
<b>Total liabilities</b>	<b>14,803</b>	<b>1,182</b>	<b>14</b>	<b>48</b>	<b>2,108</b>	<b>1,129</b>	<b>19,284</b>
<b>Assets less liabilities, net</b>	<b>(14,599)</b>	<b>237</b>	<b>9</b>	<b>(20)</b>	<b>4,761</b>	<b>17,181</b>	<b>7,569</b>

E. Derivatives' positions in the consolidated balance sheet as at March 31, 2008 (in NIS millions):

	CPI/NIS			
	Par value	Fair value	Par value	Fair value
	Up to one year		Over one year	
	Long	Long	Long	Long
1. Futures contracts for hedging purposes -not recognized for accounting purposes (1)	4,444	32	980	(12)

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

	<u>Par value</u>		<u>Dollar/NIS</u> <u>Up to one year</u>	
	<u>Long</u>	<u>Short</u>	<u>Long</u>	<u>Short</u>
2. Derivatives for hedging purposes – not recognized for accounting purposes:				
Future purchases of dollars	415	228	(7)	(1)
Put options	249	71	7	(2)
Call options	336	77	3	-

	<u>Par value</u>		<u>Dollar/NIS</u> <u>Up to one year</u>	
	<u>Long</u>	<u>Short</u>	<u>Long</u>	<u>Short</u>
3. Derivatives for hedging purposes – recognized for accounting purposes:				
Future purchases of dollars	431	-	(44)	-

	<u>Par value</u>		<u>Interest</u> <u>Up to one year</u>	
	<u>Long</u>		<u>Long</u>	
4. Swap future contract (3) – not recognized for accounting purposes:	360		(4)	
(1) These contracts are intended to protect CPI linked liabilities, such that if the CPI were to rise at a higher rate than that provided in the contract, the difference would be received and in the reverse case the difference would be paid.				
(2) The purpose of this future contract is to turn the interest from variable interest into fixed interest.				

### 7.2 Investee companies

During the reported period, no material changes occurred in the exposure of material investee companies of the Company to market risks and in the methods of managing such risks in relation to the Company's report on this matter in the directors' report of the Company for 2007 that was published on March 23, 2008.

# Discount Investment Corporation Ltd.

Board of Directors' Report for the First Quarter of 2008

## 8. Sensitivity test tables

### 8.1 Tables showing the sensitivity tests of sensitive financial instruments included in the consolidated financial statements as at March 31, 2008 according to various market changes

#### Sensitivity test to changes in interest rate

Item	Fair value	Gain (loss) from changes in interest rate			
		Increase		Decrease	
		10%	5%	10%	5%
		NIS millions			
Long-term loans to affiliates (including current maturities)	432	(4)	(2)	4	2
Investments including short-term derivatives	768	(3)	(1)	2	1
Cash and cash equivalents	1,591	(8)	(4)	8	4
Debentures	(13,496)	355	178	(354)	(178)
Loans from banks (including maturities)	(2,129)	27	14	(31)	(15)
Short-term financial liabilities	(79)	-	-	-	-
	<u>(12,913)</u>	<u>367</u>	<u>185</u>	<u>(371)</u>	<u>(186)</u>

#### Sensitivity test to changes in dollar exchange rate

Item	Fair value	Gain (loss) from changes in dollar exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
		NIS millions			
Long-term loans to affiliates (including current maturities)	217	22	11	(22)	(11)
Investments including short-term derivatives	433	43	22	(43)	(22)
Cash and cash equivalents	919	92	46	(92)	(46)
Loans from banks (including maturities)	(976)	(98)	(49)	98	49
	<u>593</u>	<u>59</u>	<u>30</u>	<u>(59)</u>	<u>(30)</u>

# Discount Investment Corporation Ltd.

Board of Directors' Report for the First Quarter of 2008

## Sensitivity test to changes in euro exchange rate

Item	Fair value	Gain (loss) from changes in euro exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
		NIS millions			
Long-term loans to affiliates (including current maturities)	85	9	4	(9)	(4)
Investments including short-term derivatives	7	1	-	(1)	-
Cash and cash equivalents	8	1	-	(1)	-
Loans from banks (including maturities)	(11)	(1)	(1)	1	1
	<u>89</u>	<u>10</u>	<u>(3)</u>	<u>(10)</u>	<u>(3)</u>

## Sensitivity test to changes in pound sterling exchange rate

Item	Fair value	Gain (loss) from changes in pound sterling exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
		NIS millions			
Long-term loans to affiliates (including current maturities)	122	12	6	(12)	(6)
Cash and cash equivalents	4	-	-	-	-
	<u>126</u>	<u>12</u>	<u>6</u>	<u>(12)</u>	<u>(6)</u>

## Sensitivity test to changes in other exchange rates

Item	Fair value	Gain (loss) from changes in market factor			
		Increase		Decrease	
		10%	5%	10%	5%
		NIS millions			
Cash and cash equivalents	2	-	-	-	-
Loans from banks	(12)	(1)	(1)	1	1
Current financial liabilities	(25)	(3)	(1)	3	1
	<u>(35)</u>	<u>(4)</u>	<u>(2)</u>	<u>4</u>	<u>2</u>

## Sensitivity test to changes in marketable portfolio prices

Item	Fair value	Gain (loss) from changes in marketable portfolio prices			
		Increase		Decrease	
		10%	5%	10%	5%
		NIS millions			
Investment in marketable portfolio	483	48	24	(48)	(24)

# Discount Investment Corporation Ltd.

Board of Directors' Report for the First Quarter of 2008

## Sensitivity test to changes in dollar exchange rate

		<u>Fair value</u>	<u>Gain (loss) from changes in dollar exchange rate</u>			
			<u>Increase</u>		<u>Decrease</u>	
			<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
<u>Dollar options for hedging purposes*</u>			<u>NIS millions</u>			
<u>Long</u>	Call	3	16	6	(3)	(3)
	Put	7	(7)	(5)	17	7
<u>Short</u>	Call	-	(2)	(1)	-	-
	Put	(2)	2	1	(5)	(2)
		<u>8</u>	<u>9</u>	<u>1</u>	<u>9</u>	<u>2</u>

\* Not recognized as an accounting hedge

## Sensitivity test to changes in standard deviation

		<u>Fair value</u>	<u>Gain (loss) from changes in standard deviation</u>			
			<u>Increase</u>		<u>Decrease</u>	
			<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
<u>CPI forward**</u>			<u>NIS millions</u>			
<u>Long</u>	Call	3	1	-	(1)	-
	Put	7	3	1	(2)	(1)
<u>Short</u>	Call	*-	(1)	-	-	-
	Put	(2)	(1)	-	1	-
		<u>(8)</u>	<u>2</u>	<u>1</u>	<u>(2)</u>	<u>(1)</u>

\* Less than NIS 1 million.

\*\* Not recognized as an accounting hedge

## Sensitivity test to changes in CPI

		<u>Fair value</u>	<u>Gain (loss) from changes in CPI</u>			
			<u>Increase</u>		<u>Decrease</u>	
			<u>0.2%</u>	<u>0.1%</u>	<u>0.2%</u>	<u>0.1%</u>
<u>Forward CPI</u>			<u>NIS millions</u>			
Not recognized as an accounting hedge		<u>35</u>	<u>9</u>	<u>4</u>	<u>(9)</u>	<u>(6)</u>

# Discount Investment Corporation Ltd.

Board of Directors' Report for the First Quarter of 2008

## Sensitivity test to changes in dollar exchange rate

	<u>Fair value</u>	<u>Gain (loss) from changes in dollar exchange rate</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
Forward dollar		NIS millions			
Recognized as an accounting hedge	(44)	38	19	(38)	(19)
Not recognized as an accounting hedge	(8)	18	9	(18)	(9)
	<u>(52)</u>	<u>56</u>	<u>28</u>	<u>(56)</u>	<u>(28)</u>

## Sensitivity test to changes in interest rate

	<u>Fair value</u>	<u>Gain (loss) from changes in interest rate</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
Interest rate swap		NIS millions			
Not recognized as an accounting hedge	(4)	3	2	(3)	(2)

## 8.2 Tables showing the sensitivity tests of sensitive financial instruments included in the consolidated financial statements as at December 31, 2007 according to various market changes

### Sensitivity test to changes in interest rate

Item	<u>Fair value</u>	<u>Gain (loss) from changes in interest rate</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
		NIS millions			
Long-term deposits and loans (including current maturities)	1,140	(11)	(5)	11	5
Short-term deposits and loans	319	(1)	-	-	-
Marketable securities	419	(1)	-	1	-
Debentures	(14,610)	405	202	(405)	(202)
Loans from banks	(1,263)	14	8	(18)	(9)
Other liabilities	(51)	-	-	-	-
	<u>(14,046)</u>	<u>406</u>	<u>205</u>	<u>(411)</u>	<u>(206)</u>

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

### Sensitivity test to changes in dollar exchange rate

Item	Fair value	Gain (loss) from changes in dollar exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Long-term deposits and loans (including current maturities)	829	83	41	(83)	(41)
Short-term deposits and loans	228	23	11	(23)	(11)
Marketable securities	35	4	2	(4)	(2)
Cash and cash equivalents	1,143	114	57	(114)	(57)
Loans from banks	(776)	(78)	(39)	78	39
	<u>1,459</u>	<u>146</u>	<u>72</u>	<u>(146)</u>	<u>(72)</u>

### Sensitivity test to changes in euro exchange rate

Item	Fair value	Gain (loss) from changes in euro exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Long-term deposits and loans (including current maturities)	77	8	4	(8)	(4)
Short-term deposits and loans	7	1	-	(1)	-
Cash and cash equivalents	9	1	-	(1)	-
	<u>93</u>	<u>10</u>	<u>4</u>	<u>(10)</u>	<u>(4)</u>

### Sensitivity test to changes in pound sterling exchange rate

Item	Fair value	Gain (loss) from changes in pound sterling exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Long-term deposits and loans (including current maturities)	142	14	7	(14)	(7)
Cash and cash equivalents	2	-	-	-	-
	<u>144</u>	<u>14</u>	<u>7</u>	<u>(14)</u>	<u>(7)</u>

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

### Sensitivity test to changes in other exchange rates

Item	Fair value	Gain (loss) from changes in market factor			
		Increase		Decrease	
		10%	5%	10%	5%
		NIS millions			
Cash and cash equivalents	3	-	-	-	-
Loans from banks	(48)	(5)	(2)	5	2
	<u>(45)</u>	<u>(5)</u>	<u>(2)</u>	<u>5</u>	<u>2</u>

### Sensitivity test to changes in prices of marketable securities

Item	Fair value	Gain (loss) from changes in prices of marketable securities			
		Increase		Decrease	
		10%	5%	10%	5%
		NIS millions			
Investment in marketable securities	810	81	41	(81)	(41)

### Sensitivity test to changes in dollar exchange rate

	Fair value	Gain (loss) from changes in dollar exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
		NIS millions			
<u>Dollar options for hedging purposes*</u>					
<u>Long</u> Call	1	11	3	(1)	(1)
Put	1	(1)	(1)	8	3
<u>Short</u> Call	-	-	-	-	-
Put	-	-	-	(1)	-
	<u>2</u>	<u>10</u>	<u>2</u>	<u>6</u>	<u>2</u>

\* Not recognized as an accounting hedge

### Sensitivity test to changes in interest rate

Forward CPI	Fair value	Gain (loss) from changes in interest rate			
		Increase		Decrease	
		10%	5%	10%	5%
		NIS millions			
Not recognized as an accounting hedge	(8)	8	4	(8)	(4)

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

### Sensitivity test to changes in CPI

	<u>Fair value</u>	<u>Gain (loss) from changes in CPI</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>0.2%</u>	<u>0.1%</u>	<u>0.2%</u>	<u>0.1%</u>
Forward CPI		NIS millions			
Not recognized as an accounting hedge	<u>17</u>	<u>6</u>	<u>3</u>	<u>(6)</u>	<u>(3)</u>

### Sensitivity test to changes in dollar exchange rate

	<u>Fair value</u>	<u>Gain (loss) from changes in dollar exchange rate</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
Forward dollar		NIS millions			
Recognized as an accounting hedge	(27)	42	21	(42)	(21)
Not recognized as an accounting hedge	<u>(3)</u>	<u>14</u>	<u>7</u>	<u>(14)</u>	<u>(7)</u>
	<u>(30)</u>	<u>56</u>	<u>28</u>	<u>(56)</u>	<u>(28)</u>

### Sensitivity test to changes in dollar exchange rate

	<u>Fair value</u>	<u>Gain (loss) from changes in dollar exchange rate</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
Cross currency swap		NIS millions			
Not recognized as an accounting hedge	<u>(66)</u>	<u>33</u>	<u>16</u>	<u>(33)</u>	<u>(16)</u>

### Sensitivity test to changes in interest rate

	<u>Fair value</u>	<u>Gain (loss) from changes in interest rate</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
Interest rate swap		NIS millions			
Not recognized as an accounting hedge	<u>4</u>	<u>80</u>	<u>40</u>	<u>(80)</u>	<u>(40)</u>

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

### 8.3 Tables showing the sensitivity tests of sensitive financial instruments included in the consolidated financial statements as at March 31, 2007 according to various market changes

#### Sensitivity test to changes in interest rate

Item	Fair value	Gain (loss) from changes in interest rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Long-term deposits and loans (including current maturities)	541	(5)	(3)	5	3
Short-term deposits and loans	634	-	-	-	-
Cash and cash equivalents in banks	1,373	(6)	(3)	6	3
Debentures	(12,248)	343	172	(343)	(172)
Loans from banks	(1,067)	16	9	(16)	(9)
Other liabilities	(183)	-	-	-	-
Credit from banks	(74)	-	-	-	-
	<u>(11,024)</u>	<u>348</u>	<u>175</u>	<u>(348)</u>	<u>(175)</u>

#### Sensitivity test to changes in dollar exchange rate

Item	Fair value	Gain (loss) from changes in dollar exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Long-term deposits and loans (including current maturities)	239	24	12	(24)	(12)
Short-term deposits and loans	33	3	2	(3)	(2)
Cash and cash equivalents	1,085	108	54	(108)	(54)
Loans from banks	(844)	(84)	(42)	84	42
	<u>513</u>	<u>51</u>	<u>26</u>	<u>(51)</u>	<u>(26)</u>

#### Sensitivity test to changes in euro exchange rate

Item	Fair value	Gain (loss) from changes in euro exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Long-term deposits and loans (including current maturities)	91	9	5	(9)	(5)
Short-term deposits and loans	6	1	-	(1)	-
	<u>97</u>	<u>10</u>	<u>5</u>	<u>(10)</u>	<u>(5)</u>

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

### Sensitivity test to changes in pound sterling exchange rate

Item	Fair value	Gain (loss) from changes in pound sterling exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Long-term deposits and loans (including current maturities)	141	14	7	(14)	(7)

### Sensitivity test to changes in prices of marketable securities

Item	Fair value	Gain (loss) from changes in prices of marketable securities			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Investment in marketable securities	474	47	24	(47)	(24)

### Sensitivity test to changes in dollar exchange rate

	Fair value	Gain (loss) from changes in dollar exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Dollar options for hedging purposes*					
<u>Long</u> Call	1	36	12	-	-
Put	3	(3)	(3)	19	8
<u>Short</u> Call	**-	(14)	(4)	-	-
Put	(6)	5	4	(35)	(16)
	(2)	24	9	(16)	(8)

\* Not recognized as an accounting hedge.

\*\* Less than NIS 1 million.

### Sensitivity test to changes in standard deviation

	Fair value	Gain (loss) from changes in standard deviation			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Dollar options for hedging purposes*					
<u>Long</u> Call	1	-	-	-	-
Put	3	-	-	-	-
<u>Short</u> Put	(6)	-	-	1	1
	(2)	-	-	1	1

\* Not recognized as an accounting hedge

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

### Sensitivity test to changes in CPI

	Fair value	Gain (loss) from changes in CPI			
		Increase		Decrease	
Forward CPI		0.2%	0.1%	0.2%	0.1%
		NIS millions			
Not recognized as an accounting hedge	(177)	7	4	(7)	(4)

### Sensitivity test to changes in dollar exchange rate

	Fair value	Gain (loss) from changes in dollar exchange rate			
		Increase		Decrease	
Forward dollar		10%	5%	10%	5%
		NIS millions			
Recognized as an accounting hedge	(20)	45	22	(45)	(22)
Not recognized as an accounting hedge	(2)	14	7	(14)	(7)
	(22)	59	29	(59)	(29)

### Sensitivity test to changes in dollar exchange rate

	Fair value	Gain (loss) from changes in dollar exchange rate			
		Increase		Decrease	
Cross currency swap		10%	5%	10%	5%
		NIS millions			
Not recognized as an accounting hedge	(83)	71	35	(71)	(35)

### Sensitivity test to changes in interest rate

	Fair value	Gain (loss) from changes in interest rate			
		Increase		Decrease	
Interest rate swap		10%	5%	10%	5%
		NIS millions			
Not recognized as an accounting hedge	(1)	5	3	(5)	(3)

## 9. Disclosure Regarding the Process of Approving the Financial Statements

The Company's Board of Directors is the body responsible for the corporate governance of the Company and the approval of its financial statements.

The Company's Board of Directors has appointed the Company's audit committee to act as the "balance sheet committee" that presents recommendations to it with respect to approval of the financial statements and the discussion of them before their approval. The "balance sheet committee" is comprised of four members including one external director with financial expertise. The Company's internal auditor and independent auditor are invited to and attend the meetings of the "balance sheet committee" as well as the meetings of the Board of Directors in which the financial statements are discussed and approved. In these meetings the independent auditor is required to present the principal findings, if any, that arose from the audit or review process.

# Discount Investment Corporation Ltd.

## Board of Directors' Report for the First Quarter of 2008

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The “balance sheet committee” examines, by means of detailed presentations of officers and other people of the Company, including the Company’s President Ami Erel, the Senior Vice President and Chief Financial Officer Oren Lieder, and the Vice President and Comptroller Michel Dahan, the significant matters of the financial report, including transactions not in the ordinary course of business, if there were any, the material evaluations and critical estimates that were implemented in the financial statements, the reasonability of the data, the accounting policy that was applied and any changes in it, and implementation of the proper disclosure principle in the financial statements and in the information accompanying it. The “balance sheet committee” examines various aspects of control and risk management, both those reflected in the financial statements (such as the report on financial risks) and those that affect the reliability of the financial statements. If necessary, the balance sheet committee requests to receive comprehensive reviews of matters having a particularly material effect.

Approval of the financial statements usually requires a number of meetings: one before the approval of the financial statements - for a comprehensive discussion of the material reporting matters, and another - of the Board of Directors, proximate to the date of approval, mainly for a discussion of the results.

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Nochi Dankner  
Chairman of the Board

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Ami Erel  
President and CEO

Tel Aviv, May 20, 2008

**The Board of Directors  
Discount Investment Corporation Limited**

**Review of the unaudited condensed consolidated interim financial statements  
for the three month period ended March 31, 2008**

At your request, we have reviewed the condensed consolidated interim balance sheet of Discount Investment Corporation Limited and its subsidiaries as at March 31, 2008 and the condensed consolidated interim statement of income, condensed consolidated interim statement of recognized income and expense, and the condensed consolidated interim statement of cash flows for the three month period then ended.

Our review was performed in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel and included, inter alia, reading the said financial statements, reading the minutes of Shareholders Meetings and of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

We received reports of other auditors regarding review of the interim financial statements of subsidiaries whose assets constitute 9% of the total consolidated assets as at March 31, 2008, and whose revenues constitute 7% of the total consolidated revenues for the three month period then ended. Furthermore, the data included in the financial statements, relating to the net asset value of the Group's investments in affiliates and to its equity in their operating results is based on the financial statements of such affiliates, some of which were reviewed by other auditors.

Since the review performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said condensed consolidated interim financial statements.

In the course of our review, including the reading of the review reports of other auditors as stated above, nothing came to our attention which would indicate the necessity of making material modifications to the financial statements referred to above in order for them to be in conformity with IAS 34, *Interim Financial Reporting*, and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

Sincerely,

Somekh Chaikin  
Certified Public Accountants (Isr.)

May 20, 2008

# Discount Investment Corporation Ltd.

## Interim Consolidated Balance Sheets

	March 31, 2008	March 31, 2007	December 31, 2007
	Unaudited	Unaudited	Audited
	N I S	m i l l i o n s	
<b>Non-current assets</b>			
Investments in affiliated companies	4,474	3,896	4,634
Other investments and loans, including derivatives	102	186	157
Fixed assets	2,465	4,361	2,500
Investment property	5,421	4,818	5,313
Investment property under construction	138	90	155
Fundings for employee benefits	10	9	8
Long-term receivables	580	546	578
Non-current inventory	989	220	1,060
Deferred expenses	451	162	487
Deferred tax assets	72	116	91
Intangible assets	3,042	4,245	3,210
	17,744	18,649	18,193
	17,744	18,649	18,193
<b>Current assets</b>			
Other investments, including derivatives	887	567	973
Receivables and debit balances	261	967	219
Current tax assets	20	38	24
Trade receivables	1,519	2,590	1,468
Inventory	371	900	392
Inventory of buildings held for sale	702	657	703
Cash and cash equivalents	5,349	4,826	4,894
	9,109	10,545	8,673
	9,109	10,545	8,673
<b>Total assets</b>	26,853	29,194	26,866

The accompanying notes are an integral part of the interim financial statements.

# Discount Investment Corporation Ltd.

## Interim Consolidated Balance Sheets

	March 31, 2008	March 31, 2007	December 31, 2007
	Unaudited	Unaudited	Audited
	N I S	m i l l i o n s	
<b>Equity</b> (see note 5)			
Share capital	742	735	742
Other capital reserves	4,427	4,072	4,744
Retained earnings	383	1,582	197
	<hr/>	<hr/>	<hr/>
Equity attributed to the Company's shareholders	5,552	6,389	5,683
Minority interests	2,017	2,725	2,385
	<hr/>	<hr/>	<hr/>
	7,569	9,114	8,068
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Non-current liabilities</b>			
Financial liabilities	14,721	13,578	14,135
Deferred income	-	16	4
Provisions	17	99	18
Deferred tax liabilities	728	818	731
Employee benefits	28	58	28
	<hr/>	<hr/>	<hr/>
	15,494	14,569	14,916
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Current liabilities</b>			
Financial liabilities	1,100	793	1,310
Payables, credit balances and current liabilities	1,646	1,816	1,188
Trade payables	785	2,445	1,040
Current tax liabilities	99	312	184
Revolving credit	-	2	-
Deferred income	14	2	15
Provisions	146	141	145
	<hr/>	<hr/>	<hr/>
	3,790	5,511	3,882
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Total equity and liabilities</b>	<hr/> <b>26,853</b>	<hr/> <b>29,194</b>	<hr/> <b>26,866</b>

Nochi Dankner

Chairman of the Board

Ami Erel

President and CEO

Oren Lieder

Executive Vice President and CFO

Date of approval of financial statements: May 20, 2008

# Discount Investment Corporation Ltd.

## Interim Consolidated Statements of Income

	Three months ended		Year ended
	March 31, 2008	March 31, 2007	December 31, 2007
	Unaudited	Unaudited	Audited
	N I S	m i l l i	o n s
<b>Income</b>			
Sales and services	1,941	4,101	14,384
Company's equity in the net earnings of affiliated companies	36	183	27
Gain from realization and revaluation of investments and assets, net	213	667	1,495
Other income	18	6	14
Financial income	169	123	592
	<u>2,377</u>	<u>5,080</u>	<u>16,512</u>
<b>Expenses</b>			
Cost of sales and services	1,070	2,681	9,273
Selling expenses	176	678	2,286
General and administrative expenses	195	233	920
Financing expenses	436	227	1,440
	<u>1,877</u>	<u>3,819</u>	<u>13,919</u>
Earnings before income tax	500	1,261	2,593
Income tax	(135)	(148)	(371)
<b>Earnings for the period</b>	<u>365</u>	<u>1,113</u>	<u>2,222</u>
<b>Attributable to:</b>			
The Company shareholders	191	978	1,665
Minority interests	174	135	557
	<u>365</u>	<u>1,113</u>	<u>2,222</u>
<b>Net earning per NIS 1 par value of ordinary shares:</b>	<b>NIS</b>	<b>NIS</b>	<b>NIS</b>
Basic earnings per share	<u>2.3</u>	<u>12.6</u>	<u>21.2</u>
Diluted earnings per share	<u>2.2</u>	<u>12.5</u>	<u>20.9</u>

The accompanying notes are an integral part of the interim financial statements.

# Discount Investment Corporation Ltd.

## Consolidated Statement of Recognized Income and Expense

	Three months ended		Year ended
	March 31, 2008	March 31, 2007	December 31, 2007
	Unaudited	Unaudited	Audited
	N I S	m i l l i	o n s
Reserve from revaluation of investment following rise to control	9	-	-
Actuarial gains and losses from defined benefit plan, net of tax	(5)	-	11
Foreign currency translation differences for foreign operations	(357)	(58)	(391)
Foreign currency translation differences transferred to profit or loss	-	-	31
Effective portion of changes in fair value of cash flow hedges, net of tax	(25)	-	(9)
Changes in the fair value of cash flow hedges transferred to profit or loss	1	5	5
Changes in fair value of available for sale financial assets, net of tax	(10)	9	24
Revaluation of fixed assets transferred to investment property	-	-	1
Net expense recognized directly in equity	(387)	(44)	(328)
Profit for the period	365	1,113	2,222
Total recognized (expense) income for the period	(22)	1,069	1,894
<b>Attributable to: *</b>			
Equity holders of the Company	(131)	936	1,394
Minority interest	109	133	500
Total recognized (expense) income for the period	(22)	1,069	1,894

\* See also note 5.

The accompanying notes are an integral part of the interim financial statements.

# Discount Investment Corporation Ltd.

## Interim Consolidated Statements of Cash Flows

	Three months ended		Year ended
	March 31, 2008	March 31, 2007	December 31, 2007
	Unaudited	Unaudited	Audited
	N I S		
	m i l l i o n s		
<b>Cash flows generated by operating activities</b>			
Earnings for the period	365	1,113	2,222
Company's equity in the net earning of affiliated companies	(36)	(183)	(27)
Dividends received	52	1	397
Gain from realization and reduction of investments and assets, net	(213)	(667)	(1,495)
Depreciation of fixed assets and deferred expenses	140	200	754
Depreciation of intangible assets	58	63	243
Provision for doubtful debts	-	1	1
Financing costs, net	267	104	848
Taxes on income, net	135	148	371
Income tax paid, net	(172)	(98)	(442)
Other income	(18)	-	-
Share-based payment transactions	6	13	38
	<u>584</u>	<u>695</u>	<u>2,910</u>
Decrease in long-term receivables	-	-	1
Increase in sundry receivables and debit balances	(51)	(42)	(61)
Increase in trade receivables	(89)	(233)	(167)
Decrease (increase) in inventory	64	(110)	(204)
Decrease (increase) in non-current inventory	2	(82)	(192)
Change in provision and employee benefits	(1)	(3)	(8)
Increase in long-term deferred income	-	1	-
Increase in other long-term liabilities	-	7	2
(Decrease) increase in trade payables	(181)	432	416
(Decrease) increase in sundry payables and credit balances	(15)	217	253
	<u>(271)</u>	<u>187</u>	<u>40</u>
Net cash inflow generated by operating activities	<u>313</u>	<u>882</u>	<u>2,950</u>

The accompanying notes are an integral part of the interim financial statements.

# Discount Investment Corporation Ltd.

## Interim Consolidated Statements of Cash Flows

	Three months ended		Year ended
	March 31,	March 31,	December 31,
	2008	2007	2007
	Unaudited	Unaudited	Audited
	N I S	m i l l i o n s	
<b>Cash flows generated by investing activities</b>			
Long-term deposits, loans and investments granted	-	(30)	(12)
Collection of long-term deposits and loans granted	9	1	28
Current investments, net	25	(163)	(926)
Investments in affiliated companies	(181)	(160)	(995)
Investment in real estate, in investment property and in fixed and other assets	(289)	(268)	(3,120)
Withdrawal of former subsidiary from the consolidation	-	7	(247)
Proceeds from dividend and from sale of investments	421	1,585	2,413
Proceeds from disposal of fixed assets	16	6	172
Interest received	80	47	276
Proceeds from settlement of derivatives	-	1	(49)
Net cash inflow (outflow) generated by investing activities	81	1,026	(2,460)
<b>Cash flows generated by financing activities</b>			
Non-current liabilities received	1,122	1,744	6,050
Current liabilities, net	(7)	(27)	67
Issuance of shares and exercise of options	-	-	912
Shares issued by subsidiaries to minority	-	-	192
Interest paid	(158)	(241)	(734)
Dividend paid	-	-	(2,076)
Dividend paid to minority shareholders of subsidiaries	-	(10)	(287)
Non-current liabilities	(816)	(210)	(1,308)
Receipts from (repayments to) external shareholders in subsidiaries, net	-	(1)	6
Net cash inflow generated by financing activities	141	1,255	2,822
Increase in cash and cash equivalents	535	3,163	3,312
Cash and cash equivalents at the beginning of the period	4,894	1,681	1,681
Effect of exchange rate fluctuations on cash and cash equivalents	(80)	(20)	(99)
Cash and cash equivalents at the end of the period	5,349	4,824	4,894

The accompanying notes are an integral part of the interim financial statements.

# Discount Investment Corporation Ltd.

## Interim Consolidated Statements of Cash Flows

	Three months ended		Year ended
	March 31, 2008	March 31, 2007	December 31, 2007
	Unaudited	Unaudited	Audited
	N I S	m i l l i	o n s
<b>Non cash transactions</b>			
Dividend proposed	-	816	-
Investments in fixed assets in investment property in an affiliated company, and deferred charges on credit	89	68	251
Sale of fixed and other assets on credit	-	-	6
Debts in respect of issuance of debentures	-	700	-
Accrued dividend to minority of subsidiary	433	3	-
Conversion of loans into shares in an affiliated company	5	-	6

The accompanying notes are an integral part of the interim financial statements.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## **Note 1 - Basis of Preparation**

### **A. Initial adoption of IFRSs**

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). These are the Company's first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and do not include all of the information required for full annual financial statements. These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2007 (hereinafter – the annual financial statements).

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company for the three month period ended March 31, 2007 is provided in Note 9.

The financial statements were approved by the Board of Directors on May 20, 2008.

### **B. Functional currency and presentation currency**

The interim financial statements are presented in NIS, which is the Company's functional currency, and have been rounded to the nearest thousand. The NIS is the currency that represents the principal economic environment in which the Company operates.

### **C. Basis of measurement**

These financial statements are prepared on the historical cost basis except the following assets and liabilities that are stated at fair value: derivative financial instruments, financial instruments at fair value through profit or loss, financial instruments classified as available-for-sale and investment property. Biological assets are measured at fair value less estimated point-of-sale costs. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The value of non-monetary assets and equity items that were measured on the historical cost basis was adjusted to changes in the Consumer Price Index (CPI) until December 31, 2003, since until that date the State of Israel was considered a hyperinflationary economy. Presented hereunder are details of the CPI and the dollar exchange rate:

	<u>Dollar exchange rate</u>	<u>Current month CPI (in points)</u>
As at March 31, 2008	3.553	191.3
As at March 31, 2007	4.155	184.4
As at December 31, 2007	3.846	191.2

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## Note 1 - Basis of Preparation (cont'd)

### C. Basis of measurement (cont'd)

The rate of change:

	Dollar exchange rate	Current month CPI	Latest known CPI
For the three months ended March 31, 2008	(7.6%)	0.1%	0.4%
For the three months ended March 31, 2007	(1.7%)	(0.2%)	(0.4%)
For the year ended December 31, 2007	(9.0%)	3.4%	2.8%

### D. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The estimates and judgments that were used by management in order to implement the accounting policies and prepare the interim financial statements were identical to those it used in the preparation of the consolidated financial statements for December 31, 2007.

Presented below is a description of the critical accounting estimates that were used in preparing the financial statements of the Company, which required making assumptions regarding significantly uncertain circumstances and events. The discretion exercised by management of the Company when making the estimates is based on past experience, various facts, external factors and reasonable assumptions according to the pertinent circumstances of each estimate.

#### 1. Investment property

Presentation of investment property according to fair value – The Group presents its investment property according to the fair value model. Changes in fair value after January 1, 2007 are recorded as income or expense. The fair value is determined by independent appraisers having relevant professional skills and is examined at least once a year and any time there are indications of a material change in value.

#### 2. Contingent liabilities

When assessing the chances of legal claims that were filed against the Company and its investee companies, the companies relied on the opinion of their legal counsel. The opinion of their legal counsel is based on the best of their professional judgment, and takes into consideration the current stage of the proceedings and the legal experience accumulated with respect to the various matters. As the results of the claims will ultimately be determined by the courts, they may be different from such estimates.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 1 - Basis of Preparation (cont'd)**

### **D. Use of estimates and judgments (cont'd)**

#### 3. Impairment in value of assets

The Company and Group companies examine on every balance sheet date whether there have been any changes in circumstances which would indicate impairment in the value of one or more of the non-monetary assets. When there are signs of impairment in value, they examine whether the amount by which the investment in the asset is presented can be recovered from the discounted cash flows anticipated to be derived from the asset, and if necessary, they record a provision for impairment up to the amount of the recoverable value. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The estimates regarding cash flows are based on past experience with respect to this asset or similar assets, and on the best possible evaluations of the Company and Group companies regarding the economic conditions that will exist during the remaining useful life of the asset. The Company uses the estimates of an appraiser when determining the net selling price of part of the assets. With respect to real estate, the estimates also take into consideration the situation of the market where the asset is located. The deepening of the competition in the market may significantly affect forecasts regarding cash flows, the remaining useful life and the net selling price of the assets.

#### 4. Valuation of intangible assets and goodwill

The Group is required to allocate the purchase price of investee companies (other than in the acquisition of minority interests) to the assets that were purchased and the liabilities that were assumed on the basis of their estimated fair value. In large acquisitions the Company engages independent appraisers to assist it in determining the fair value of these assets and liabilities. These valuations require the use of significant estimates and assumptions by management. The material intangible assets that were recognized with the assistance of appraisers include customer relations, trade names and brands. Critical estimates that were used to estimate the useful life of such intangible assets include, inter alia, the estimated life of the customer relations and anticipated market developments. Critical estimates that were used in the valuation of certain assets include, inter alia, anticipated cash flows from contracts with customers and the replacement cost of brands and fixed assets. Management's estimates regarding the fair value and useful life are based on assumptions considered reasonable by management, but are uncertain, and therefore actual results may be different.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies**

These interim financial statements have been prepared on the basis of international financial reporting standards and their related interpretations (hereinafter – IFRSs) in issue that are effective or available for early adoption at the Group's first IFRS annual reporting date, December 31, 2008, and were the basis for the Company's accounting policy.

The IFRSs that will be effective or available for voluntary early adoption in the annual financial statements for the period ended December 31, 2008 are still subject to change and to the issue of additional interpretation(s) and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first IFRS financial statements are prepared at December 31, 2008.

The preparation of the interim financial statements in accordance with IAS 34 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Israeli GAAP. The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2007 for the purposes of the transition to IFRSs, as required by IFRS 1. The impact of the transition from Israeli GAAP to IFRSs is explained in Note 9.

The IFRS accounting policies have been applied consistently by the investee companies of the Company.

Furthermore, the structure of these financial statements complies with the nature of the Company's business and that stated in Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

### **A. The operating cycle**

Being a holding company that engages in a variety of operations, some of the Company's normal operating cycle is longer than one year, particularly with respect to contracting work in respect of which the operating cycle can even be two to three years. As a result, current assets and current liabilities include items the realization of which is intended and anticipated to take place over the normal operating cycle of the Company.

### **B. Basis of consolidation**

#### **1. Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **B. Basis of consolidation (cont'd)**

#### **2. Business combinations under common control**

The acquisition of rights in entities under the control of the Company's controlling shareholder was accounted for according to their fair value on the date of the transaction.

In the transaction in which Barak and Globecall were sold to Netvision, Netvision recorded on its financial statements the assets and liabilities of Barak and Globecall according to their fair value on the date of the transaction. In the financial statements of the Company, the difference between the share of the Company in the new shareholders' equity of Netvision and the Company's investment in Globecall and in Netvision before the transaction, less the unrealized gain from the sale of Globecall, was recorded as a capital gain.

#### **3. Affiliates accounted for using the equity method**

Affiliates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Affiliates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Company's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation to support the investee or has made payments on behalf of the investee, or has granted loans to it.

#### **4. Jointly controlled entities accounted for using the proportionate consolidation method**

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Jointly controlled entities are accounted for using the proportionate consolidation method from the date that joint control commences until the date that joint control ceases. The consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenue and expenses of proportionately consolidated entities according to the rates of holding therein, after adjustments necessary to align their accounting policies with those of the Company.

#### **5. Joint ventures**

Joint ventures are ventures carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Company controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that it incurs and its share of the income that it earns from the joint operation.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **B. Basis of consolidation (cont'd)**

#### **6. Transactions eliminated on consolidation**

Intra-group balances and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the interim financial statements. Unrealized gains arising from transactions with affiliates and jointly controlled entities are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, as there is no evidence of impairment.

### **C. Foreign currency**

#### **1. Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale non-monetary equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized directly in equity.

#### **2. Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to NIS at exchange rates at the reporting date. The income and expenses of foreign operations are translated to NIS at exchange rates at the dates of the transactions.

Foreign currency differences are recognized directly in equity since January 1, 2007, the date of transition to IFRSs. In accordance with IFRS 1, the Company has chosen to include in equity all the accumulated translation differences in respect of all foreign operations on the date of transition to IFRSs. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **C. Foreign currency (cont'd)**

#### **2. Foreign operations (cont')**

Foreign exchange gains and losses arising from loans that were received from foreign operations or provided to foreign operations, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized directly in equity in the foreign currency translation reserve.

### **D. Financial instruments**

#### **1. Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognized when the Company assumes upon itself the contractual conditions of the instrument. Financial instruments are derecognized when the contractual rights of the Company to the cash flows deriving from the financial assets expire, or when the Company transfers to others the financial assets without retaining control over the asset or actually transfers all the risks and benefits deriving from the asset. Regular way purchases and sales of financial assets are recognized on the date of the transaction, meaning on the date the Company undertook to purchase or sell the asset. Financial liabilities are derecognized when the obligation of the Company, as specified in the agreement, expires or when it is settled or cancelled.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### **Held-to-maturity investments**

If the Company has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

#### **Available-for-sale financial assets**

The Company's investments in shares and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, dividends and foreign exchange gains and losses on debt securities, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **D. Financial instruments (cont'd)**

#### **1. Non-derivative financial instruments (cont'd)**

##### **Investments at fair value through profit or loss**

A financial instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. These financial instruments are measured at fair value, and changes therein are recognized in profit or loss.

##### **Other**

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

#### **2. Derivative financial instruments**

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

##### **Fair value hedges**

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged; and changes in fair value are recognized in profit or loss.

##### **Cash flow hedges**

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued. The cumulative gain or loss previously recognized in equity remains there until the forecasted transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **D. Financial instruments (cont'd)**

#### **2. Derivative financial instruments (cont'd)**

##### **Economic hedges**

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit or loss as part of foreign currency gains and losses.

##### **Derivatives that do not serve as a hedge**

The changes in fair value of these derivatives are recognized immediately in profit or loss.

##### **Separable embedded derivatives**

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

#### **3. Compound financial instruments**

Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder for an issuance of shares in a number that does not vary with changes in their fair value, and that have a fixed exercise price.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. Distributions to the equity holders are recognized against equity.

In accordance with IFRS 1, the Company has chosen to not separate compound financial instruments into an equity component and a liability component, when at the date of transition to reporting according to IFRSs (January 1, 2007) the liability component no longer exists.

#### **4. CPI-linked assets and liabilities that are not measured at fair value**

The Company has balances of CPI-linked financial instruments. In the opinion of management of the Company, based on the position paper that was published by the Israel Accounting Standards Board, there are a number of possible methods for accounting for CPI-linked financial instruments.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **D. Financial instruments (cont'd)**

#### **4. CPI-linked assets and liabilities that are not measured at fair value (cont'd)**

For purposes of these interim financial statements, the Company has adopted the accounting treatment by which the carrying value of the instrument and the payments derived accordingly are remeasured every period in accordance with the actual increase in the CPI. The measurement of CPI-linked financial instruments according to IFRS is currently under examination and in this framework the professional committee of the Israel Accounting Standards Board plans to request from the International Financial Reporting Interpretations Committee (IFRIC) its position regarding the accounting treatment of CPI-linked liabilities and assets according to IFRS.

In light of the above, it is possible that the aforementioned accounting treatment is not possible under IFRS and that a different accounting policy that takes into consideration expected inflation rates when measuring the financial instrument is more appropriate. If a decision is made to this effect, the Company will be required to examine the significance of such a decision, including transitional provisions, if and to the extent any are provided, on its financial statements and accompanying notes that were and will be published until the date of the decision according to IFRS.

#### **5. Share capital**

##### **Ordinary shares**

Costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity.

#### **6. Issuance of block of securities**

- a. The consideration received from the issuance of a block of securities is attributed at first to financial liabilities that are measured each period at fair value through profit or loss, and then to financial liabilities that are measured only upon initial recognition at fair value. The remaining amount is the value of the equity component.
- b. Direct identifiable costs are attributed to the specific securities in respect of which they were incurred, whereas joint issuance costs are attributed to the securities on a proportionate basis according to the allocation of the consideration from the issuance of the block, as indicated in (a) above.

### **E. Fixed assets**

#### **1. Recognition and measurement**

Fixed asset items are measured at cost less accumulated depreciation and any accumulated impairment losses.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **E. Fixed assets (cont'd)**

#### **1. Recognition and measurement (cont'd)**

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, and any other costs directly attributable to bringing the asset to the location and condition necessary for it to begin operating in the manner intended by management, as well as the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

A fixed asset that was purchased in consideration for another non-monetary item in a transaction having a commercial substance is measured at fair value.

When major parts of a fixed asset item (including the costs of significant periodic examinations) have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Changes in the obligation to dismantle and remove the items and to restore the site on which they are located, other than changes deriving from the passing of time, are added or deducted from the cost of the asset in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount on the date of change, and any balance is recognized immediately in profit or loss.

#### **2. Reclassification to investment property**

See Paragraph H hereunder regarding reclassification of fixed assets to investment property and reclassification of investment property to fixed assets.

#### **3. Subsequent costs**

The cost of replacing part of a fixed asset item is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of fixed assets are recognized in profit or loss as incurred.

#### **4. Depreciation**

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of a fixed asset item. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **E. Fixed assets (cont'd)**

#### **4. Depreciation (cont'd)**

Buildings	25-50 years
Machinery, installations and equipment	3-17 years
Computers, office furniture and equipment	3-16 years
Motor vehicles	5-10 years
Fixtures in leased buildings	10 years
Communications network	5-20 years
Network control and examination equipment	4-6 years
Orchards and irrigation facilities	5-7 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

### **F. Intangible assets**

#### **1. Goodwill**

Goodwill or negative goodwill arises on the acquisition of subsidiaries, including acquisitions of minority interests, affiliates (including acquisitions of additional rights in affiliates) and joint ventures.

##### **Acquisitions prior to January 1, 2007**

As part of its transition to IFRSs, the Company elected to restate only those business combinations that occurred on or after January 1, 2007. In respect of acquisitions prior to January 1, 2007, goodwill represents the amount recognized by the Company under Israeli GAAP. In respect of these acquisitions, the accounting classification and treatment were not adjusted to IFRS for purposes of preparing the Company's opening balance.

##### **Acquisitions on or after January 1, 2007**

For acquisitions on or after January 1, 2007, goodwill represents the excess of the cost of the acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

##### **Acquisition of minority interests**

Goodwill arising upon the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of the acquisition.

##### **Subsequent measurement**

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **F. Intangible assets (cont'd)**

#### **2. Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is recognized as an intangible asset only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure recognized as an intangible asset includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred.

Development expenditure recognized as an intangible asset is measured at cost less accumulated amortization and accumulated impairment losses.

#### **3. Other intangible assets**

- a. Intangible assets are stated at cost and include direct costs required in order to bring the assets to operation. Intangible assets are measured on a cost basis net of accumulated amortization (other than intangible assets having an indefinite useful life) and impairment losses.
- b. Direct and certain indirect development costs deriving from the development of services for self use, and salaries of employees working on the development of software during the development period, are recognized as an intangible asset. These assets are amortized on a straight-line basis from the date the asset is ready for use. Costs incurred in the research stage and after the asset is ready for use are expensed immediately.
- c. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.
- d. Deferred expenses in respect of commissions arising from cellular subscriber acquisition are recognized as intangible assets if the costs can be reliably measured, are an inseparable part of the contract and can be attributed to a specific subscriber acquisition. If the costs do not meet such criteria, they are expensed immediately.
- e. Customer relations – The excess cost that was attributed in a subsidiary to customer relations is amortized in accordance with the expected economic benefit from the customers in each period.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **F. Intangible assets (cont'd)**

#### **3. Other intangible assets (cont'd)**

f. Brand – The excess cost that was attributed in a subsidiary to a brand having an indefinite useful life is not amortized.

g. Amortization is charged to profit or loss on a straight-line basis over the estimated useful life of the principal asset in each group of assets, other than goodwill, from the date that they are available for use. The estimated useful lives are as follows:

Customer relations	7 years
Licenses	16-20 years (mainly 16)
Information systems	4 years
Software	3-10 years
Original difference from concession	8-10 years
Know-how use right	5-10 years

Deferred costs are amortized over the anticipated period of the engagement with the cellular subscriber (mainly 18 months).

The estimates regarding the amortization method and useful life are reassessed at each reporting date.

The Company examines the useful life of an intangible asset that is not periodically amortized in order to determine whether the events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

### **G. Biological assets**

Biological assets (owned by an affiliate) are measured at fair value less estimated point-of-sale costs, with any change therein recognized in profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets.

### **H. Investment property**

Investment property is property (land or building – or part of a building – or both) held (by the Company as the owner or under a financing lease) either to earn rental income or for capital appreciation or for both, but not for:

1. Use in the production or supply of goods or services or for administrative purposes; or
2. Sale in the ordinary course of business.

Furthermore, leased buildings that are leased out by the Company under an operating lease are classified and treated as investment property.

Investment property is initially measured at cost with the addition of transaction costs. In subsequent periods the investment property is measured at fair value with any changes therein recognized in profit or loss.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **H. Investment property (cont'd)**

Property in the process of being constructed for future use as investment property, and which will be measured at fair value, are measured in the construction period on the basis of the fair value of the land with the addition of construction costs. When the construction is concluded it is remeasured according to fair value and classified as investment property. Any gain or loss from the remeasurement is recorded in profit or loss.

When property is transferred from owner-occupied property to investment property, measured at fair value, the asset is remeasured according to fair value and is classified as investment property. Any gain from the remeasurement is included directly in equity. Any loss is included directly as an expense. When the investment property measured according to fair value becomes a fixed asset (owner-occupied property) or inventory, the fair value becomes the cost of the fixed asset or inventory, for purposes of consistent accounting treatment. When inventory becomes investment property measured at fair value, any difference between the fair value of the property on that date and its previous value on the books is included directly in profit or loss.

The fair value of the investment property was determined on the basis of valuations prepared by independent appraisers having relevant professional skills.

The valuations were mainly prepared by capitalizing the cash flows anticipated to derive from the assets. The appraisers used capitalization rates of 8%-11% p.a., which are based on the type of the property and its designation, its location and the nature of the lessees. Capitalization rates of 8%-9% were used in the valuations of office buildings and buildings used in the hi-tech industry and for commercial purposes (located mainly in the center of the country and in parks for know-how intensive industries), whereas capitalization rates of 9%-11% were used in the valuations of workshops, storage and industrial buildings (located mainly in the periphery).

None of the aforementioned valuations is material for the Company and therefore were not attached as required in Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) – 1970. For this purpose the Company used a materiality test of the value of a single asset being in excess of 10% of total assets on the consolidated balance sheet.

### **I. Leased assets**

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised on the Company's balance sheet. Property under an operating lease that were classified by the Group as investment property are recognized in the balance sheet of the Company at fair value, and the lease is accounted for as a finance lease.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **I. Leased assets (cont'd)**

Leases of land from the Israel Lands Administration (hereinafter – the Administration) that are not accounted for as investment property are operating leases. Prepaid lease fees to the Administration are presented on the balance sheet and recognized in profit or loss over the lease period, including the period of the option, when at the beginning of the lease it was probable that the option will be exercised.

The Company implements IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, which defines criteria for determining at the beginning of the arrangement whether a right to use an asset constitutes a lease arrangement. It also provides when the arrangement should be subsequently reexamined. The Group implemented the relief provided in IFRS 1, by which it determined whether an arrangement contains a lease on the basis of the facts and circumstances existing on January 1, 2007 (the date of transition to IFRS).

### **J. Inventory**

Inventory is measured at the lower of cost, less a provision for slow-moving or obsolete inventory, and net realizable value. The cost of inventory includes expenditure incurred in acquiring the inventory and bringing it to its existing location and condition. In the case of inventories of work in progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost of inventory is determined as follows: inventory of goods in stores and warehouses – at the last purchase price (reflecting an average moving price); inventory of raw and packing materials – on a moving average basis; inventory of finished goods and work in progress – at the cost of a mould that reflects the average manufacturing cost for the period.

### **K. Inventory of cellular telephones**

Inventory of cellular telephones, related accessories and spare parts are presented at the lower of cost or net realizable value calculated on a moving average basis.

### **L. Inventory of real estate and residential apartments**

Inventory of real estate and residential apartments is measured at the lower of cost and net realizable value. Cost of inventory includes the costs incurred in acquiring the inventory (including prepaid operating lease fees) and bringing it to its existing location and condition. In the case of inventories of work in progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **L. Inventory of real estate and residential apartments (cont'd)**

Inventory of real estate acquired by the Group in transactions in which the seller of the real estate receives building services is recognized at fair value on the date of handing over the real estate concurrently with the recognition of a liability for building services.

In such transactions in which the Group undertakes to hand over cash in an amount that depends on the price the apartments built on the land are sold, the said financial liability is remeasured according to the anticipated cash flows discounted at the original interest rate of the liability every period, and the changes in the present value of the discounted cash flows are recognized in profit or loss.

### **M. Construction work in progress**

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

### **N. Capitalization of credit costs**

Specific and non-specific credit costs were capitalized to qualifying assets as defined in IAS 23, *Borrowing Costs*, throughout the period required for completion and construction until they are ready for their intended use. Non-specific credit costs are capitalized in the same manner to the same investment in qualifying assets, or portion thereof, which was not financed with specific credit by means of a rate which is the weighted-average cost of the credit sources which were not specifically capitalized. Other credit costs are expensed as incurred.

### **O. Impairment**

#### **1. Financial assets**

A financial asset is tested for impairment when objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **O. Impairment (cont'd)**

#### **1. Financial assets (cont'd)**

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

#### **2. Non-financial assets**

The carrying amounts of the Company's non-financial assets, other than biological assets, investment property, inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

On January 1, 2007, the date of transition to IFRSs, the Company tested for impairment goodwill, indefinite-lived intangible assets and investments in affiliates for which goodwill was recognized in the investment. In subsequent periods the Company estimates, once a year, the recoverable amount of the goodwill and intangible assets that have indefinite useful lives or are unavailable for use.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its net selling price (fair value less costs to sell). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the cash-generating unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **P. Non-current assets held for sale**

Non-current assets and disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets and components of a disposal group are remeasured in accordance with the Company's accounting policies. Thereafter generally the assets and disposal group are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

### **Q. Employee benefits**

The Group has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies or with funds managed by a trustee, and they are classified as defined contribution plans and as defined benefit plans.

#### **1. Defined contribution plans**

The Company's obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss as incurred.

#### **2. Defined benefit plans**

The Company's net obligation in respect of defined benefit post-employment plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on Government debentures denominated in the same currency that have maturity dates approximating the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Regarding the use of a discount rate deriving from Government debentures, to the best of the Company's knowledge the matter of the discount rate in actuarial calculations is under examination and it may ultimately be decided that in Israel the appropriate discount rate is one based on corporate debentures. In this case, the data included in these financial statements will change, the actuarial liability will decrease and the current financing expenses in respect of the liability will increase.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **Q. Employee benefits (cont'd)**

#### **2. Defined benefit plans (cont'd)**

When the calculation results in an asset for the Group, an asset is recognized up to the net present value of economic benefits available in the form of a refund from the plan or a reduction in future contributions to the plan. An economic benefit in the form of refunds or reductions in future contributions is considered available when it can be realized over the life of the plan or after settlement of the obligation.

When in the framework of a minimum contribution requirement, there is an obligation to pay additional amounts for services that were provided in the past, the Company recognizes an additional obligation (increases the net liability or decreases the net asset), if such amounts are not available as an economic benefit in the form of a refund from the plan or the reduction of future contributions.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company immediately recognizes all actuarial gains and losses arising from defined benefit plans directly in profit or loss.

Insurance policies in respect of employee severance benefits, which were issued by a related party, do not constitute plan assets and are presented as a separate asset.

#### **3. Other long-term employee benefits**

The Company's net obligation in respect of long-term employee benefits other than post-employment plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Government debentures denominated in the same currency that have maturity dates approximating the terms of the Company's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognized in profit or loss in the period in which they arise.

Regarding the use of a discount rate deriving from Government debentures, to the best of the Company's knowledge the matter of the discount rate in actuarial calculations is under examination and it may ultimately be decided that in Israel the appropriate discount rate is one based on corporate debentures. In this case, the data included in these financial statements will change, the actuarial liability will decrease and the current financing expenses in respect of the liability will increase.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **Q. Employee benefits (cont'd)**

#### **4. Termination benefits**

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan regarding termination of employment before the normal retirement date. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

#### **5. Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### **6. Share-based payment transactions**

The grant date fair value of options granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

### **R. Provisions**

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

#### **1. Warranties**

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

#### **2. Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **S. Revenue**

#### **1. Goods sold**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. When the credit period is short and constitutes the accepted credit in the industry, the future consideration is not discounted. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of products, transfer usually occurs when the product is delivered to the customer or the goods reach the warehouse of the customer.

#### **2. Sales of real estate and residential apartments**

Revenue from the sale of inventory of real estate and residential apartments is measured at the fair value of the consideration received or receivable. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of the inventory can be estimated reliably, there is no continuing management involvement with the inventory, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of residential apartments in Israel, transfer usually occurs when the apartment is handed over to the buyer.

#### **3. Services rendered**

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

#### **4. Communication services**

Revenue deriving from use of communication networks of a subsidiary, including revenue from air-time, interconnection fees and roaming services, is recognized upon the performance of the service. Proceeds from the sale of cellular call cards are recognized initially as deferred income and recognized as revenue according to use or when they expire.

The company offers enhanced services including voice mail, text messaging and multimedia, as well as downloadable applications, including ring tones, music, games, and other informational content. Generally, these enhanced features and data applications generate additional service revenues through monthly subscription fees or increased usage through utilization of the features and applications. Other optional services, such as equipment warranty plans are also provided for a

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **S. Revenue (cont'd)**

#### **4. Communication services (cont'd)**

monthly fee and are either sold separately or bundled and included in packaged rate plans. Revenues from enhanced features and optional services are recognized when earned.

When the company acts as an agent or an intermediary without bearing the risks and rewards resulting from the transaction, the revenue is presented on a net basis (as a profit or a commission). However, when the company acts as a principal supplier and bears the risks and rewards resulting from the transaction the revenue is presented on a gross basis, while distinguishing the revenue from the related expenses. This presentation of revenue on a gross or net basis was applied with retroactive effect for all of the reported periods.

#### **5. Construction contracts**

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

#### **6. Commissions and credit margins**

When the Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Company.

Revenues deriving from commissions and credit margins are recognized on the basis of the transactions executed with the credit cards at the rate and on the date the businesses were credited.

Revenues deriving from long-term credit arrangements (over one year) are recognized on the basis of the present value of the future cash flows, capitalized according to market interest rates as at the date of the transaction. The difference between the original amount of the credit and its present value, as aforementioned, is spread over the period of the credit and recognized as interest income.

#### **7. Rental income**

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **S. Revenue (cont'd)**

#### **8. Government grants**

An unconditional government grant related to a biological asset is recognised in profit or loss when the grant becomes receivable.

Other government grants are recognised initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grants.

Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Company for the cost of an asset are presented as deferred income/a deduction from the related asset and are recognized in profit or loss on a systematic basis over the useful life of the asset.

#### **9. Commitment to the Chief Scientist in respect of Government grants**

Such grants are accounted for as forgivable loans according to the provisions of IAS 20. Accordingly, grants received from the Chief Scientist are recognized as a liability according to their fair value on the date of their receipt, measured according to the present value of the anticipated cash flows, unless on that date it is reasonably certain that the amount received will not be refunded. The amount of the liability is reexamined each period, and any changes in the fair value of the grant are recognized in profit or loss.

### **T. Cost of sales**

1. The cost of sales includes expenses regarding loss, storage and handling of inventory until the end selling point. Costs of sales in a subsidiary that operates as a communication company, include ongoing license fees, interconnection and roaming expenses, cell site leases, depreciation and amortization charges and technical repair and maintenance expenses directly related to services rendered.

2. Supplier discounts – Discounts that are received from suppliers are deducted from the purchase cost. Therefore, the part of the discounts that relates to the purchases added to the closing inventory is attributed to inventory, and the rest of the discounts reduce the cost of sales.

These discounts are fixed discounts that do not depend on the volume of purchases (this discount is calculated as a fixed percentage of the purchases made from the supplier or as an annual fixed amount that does not depend on the volume of purchases) and they are included in the financial statements upon the execution of the proportionate purchases that entitle the Company to the said discounts.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **U. Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease, including the optional period when on the date of the transaction it was reasonably certain that the option will be exercised. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the financing expense and the reduction of the outstanding liability. The financing expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. In the event of a change in the lease terms, the lease payments are adjusted in respect of the remaining lease period, on the date the change in the lease terms was approved.

### **V. Financing income and expenses**

Financing income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financing expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs, which are not discounted, are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

### **W. Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **W. Income tax (cont'd)**

in subsidiaries and jointly controlled entities and affiliated companies to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

### **X. Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

### **Y. Earnings per share**

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes, share options and share options granted to employees.

### **Z. Segment reporting**

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **Z. Segment reporting (cont'd)**

other segments. Segment information is presented in respect of the Company's business segments and it is based on the Company's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly loans and borrowings and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and general and administrative expenses, income tax assets and liabilities, and tax expenses.

Segment capital expenditure is the total cost incurred during the period to acquire fixed assets and intangible assets other than goodwill.

See Note 8 for segment reporting details.

### **AA. Transactions with controlling shareholder**

Assets and liabilities included in a transaction with a controlling shareholder are measured at fair value on the date of the transaction. As the transaction is on the equity level, the Company includes the difference between the fair value and the consideration from the transaction in its shareholders' equity.

### **BB. Put option to the minority shareholders of subsidiaries**

A put option that was issued by the Company to the minority shareholders was recognized as a liability in accordance with the fair value of the payment, which is accounted for as a contingent purchase cost of the minority interest. Revaluation of the liability in respect of the time component is reflected in financing expenses, and the Company includes in its income its share in the subsidiary's income, taking into account exercise of the put option, whereas the valuation of liabilities in respect of other changes is recorded against goodwill.

### **CC. New standards and interpretations not yet adopted**

1. IFRS 8 *Operating Segments* (hereinafter – Standard 8) determines that the “management approach” should be used in segment reporting, meaning in accordance with the format of the internal reports provided to the decision makers of the entity. Currently the Company presents segment information in respect of its business and geographical segments. Under the management approach, the Company will present segment information in respect of business segments. Standard 8 is effective for annual periods beginning on or after January 1, 2009. The initial implementation of Standard 8 is not anticipated to have a material effect on the results of operations and financial position of the Company.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **CC. New standards and interpretations not yet adopted (cont'd)**

2. Revised IAS 23 *Borrowing Costs* (hereinafter – Standard 23) removes the option to expense credit costs and requires that an entity capitalize credit costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Standard 23 is effective for annual periods beginning on or after January 1, 2009 and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions, the Group will apply Standard 23 to qualifying assets for which capitalization of credit costs commences on or after the effective date. The initial implementation of Standard 23 is not anticipated to have a material effect on the results of operations and financial position of the Company.
3. Revised IAS 1 *Presentation of Financial Statements* (hereinafter – Standard 1) requires the aggregation in the financial statements of information having common characteristics and the presentation of a statement of comprehensive income. Standard 1 allows the presentation of income and expense items and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The titles of some of the financial statements were changed in order to reflect their function more clearly (for example, the balance sheet is renamed a statement of financial position). Standard 1 will come into effect for annual periods beginning on or after January 1, 2009. Early adoption is permitted. The initial implementation of Standard 1 is not anticipated to have a material effect on the results of operations and financial position of the Company.
4. Revised IFRS 3 *Business Combinations* and Revised IAS 27 *Consolidated and Separate Financial Statements* (hereinafter – the Standards). The principal revisions in the new Standards are as follows: The inclusion of business combinations involving only mutual entities or executed by means of contract, a change in the definitions of a business and a business combination, a change in the method of measuring items transferred in a business combination, allowing two alternatives for the measurement of non-controlling interests, change in the method of accounting for transaction costs, the accounting treatment of a step acquisition, the attribution of comprehensive income to all the shareholders, accounting for acquisitions or sales of investments while retaining control as equity transactions, accounting for transactions resulting in loss of control or gain of control at full fair value, so that the remaining holding after the loss of control is remeasured through profit or loss whereas the original investment in obtaining control is also remeasured at fair value through profit or loss, and the expansion of disclosure requirements.  
The new Standards shall apply to annual periods beginning on or after July 1, 2009, and early adoption is permitted (both Standards at the same time). IFRS 3 shall apply to business combinations that occurred as from the date it becomes effective. IAS 27 shall apply retroactively, other than the attribution of comprehensive income to the shareholders, the accounting treatment of interests in a subsidiary after obtaining control, and the accounting treatment of loss of control in a subsidiary, which will be applied as from the date it becomes effective. The other changes will affect

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 2 - Significant Accounting Policies (cont'd)**

### **CC. New standards and interpretations not yet adopted (cont'd)**

4. (cont'd)

the results of operations and financial position of the Company as from the date of their implementation.

5. Revised IFRS 2 *Share-Based Payment* (hereinafter – Standard 2) provides that vesting conditions are conditions that determine whether the company is receiving the services that entitle the other party to a share-based payment, and they are restricted to service and performance conditions. Non-vesting conditions will be reflected in the fair value of the share-based payment on the grant date, and after the grant date the company shall not adjust the fair value in respect of these conditions. Furthermore, Standard 2 specifies the accounting treatment of non-compliance with non-vesting conditions.

Standard 2 shall apply retroactively to annual periods beginning after January 1, 2009 and permits early adoption along with disclosure. The initial implementation of this standard is not anticipated to have a material effect on the results of operations and financial position of the Company.

6. Revised IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* (hereinafter – the Standards). The Standards require classifying as equity certain puttable financial instruments and obligations arising on liquidation, in certain circumstances. It also provides disclosure requirements regarding puttable financial instruments that were classified as equity. These standards shall apply to annual reporting periods beginning on or after January 1, 2009 and early adoption is permitted. The initial implementation of these standards is not anticipated to have a material effect on the results of operations and financial position of the Company.

## **Note 3 - Investee Companies**

### **A. Changes in investments during the quarter**

#### **1. Cellcom Israel Ltd. (hereinafter – Cellcom), a 53% subsidiary of the Company**

- a. In January 2008 the Company sold 3.4% of the issued share capital of Cellcom for the price of NIS 330 million. As a result the Company recognized in the first quarter of 2008 a gain in the amount of NIS 172 million and its holding in Cellcom decreased to 52.6% in equity and 58.1% in voting.
- b. In February 2008 Cellcom raised the amount of NIS 600 million by expanding its existing Series C and D of debentures.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 3 - Investee Companies (cont'd)**

### **A. Changes in investments during the quarter (cont'd)**

#### **1. Cellcom Israel Ltd. (cont'd)**

- c. In March 2008 Cellcom voluntarily made an early repayment of the balance of the loan it received from a syndicate of banks. The balance of the loan that was repaid as stated was \$ 140 million (comprised of a dollar component of \$ 85 million and a shekel component of NIS 253 million), and following the repayment the financing agreement and the restrictions it imposed were concluded. See also Note 14D6 of the annual financial statements.
- d. In March 2008 Cellcom declared the distribution of cash dividend in the total amount of NIS 700 million, which was paid in April 2008. The Company's share in the said dividend is NIS 368 million.

#### **2. Property & Building Ltd. (hereinafter – Property & Building), a 68% subsidiary of the Company**

- a. In March 2008 K.B.A. Townbuilders Group Ltd. ("K.B.A."), a 23% investee company of Property & Building Corp., sold its rights in land in Ashdod for the price of NIS 126 million. Accordingly, in the first quarter of 2008 Property & Building recorded a net gain in the amount of NIS 17 million. The share of the Company in the said gain of Property & Building is NIS 11 million.
- b. In the first quarter the Company purchased 3.1% of the issued share capital of Property & Building for the price of NIS 62 million. Subsequent to this purchase, the Company holds 68% of the equity and voting rights in Property & Building. As a result of this purchase, the Company acquired negative goodwill in the amount of NIS 18 million which it recorded as income in the statement of income.
- c. Investments in Las Vegas, Nevada, USA

In March 2008 the planning authorities of Las Vegas approved plans that were submitted to them that include building rights for 1.5 million square meters in the Plaza project in Las Vegas.

The said project, which will be constructed on property that was acquired by ElAd IDB Las Vegas LLC (hereinafter – the project company) on the main street of Las Vegas (known as the Strip), is planned to include a luxury hotel, casino, modern shopping mall, and exclusive apartment towers, and will be constructed in a number of stages.

The project company is held in equal parts by IDB Group USA Investments Inc., a subsidiary owned equally by Property & Building and IDB Development Corporation Ltd. (the parent company of the Company), and by ElAd Properties Las Vegas LLC, a company of the Elad Group.
- d. In the first quarter of 2008 Property & Building and its subsidiaries received loans from banks in the total amount of NIS 520 million, which are linked to the CPI, bear average interest of 4.8% p.a. and are repayable over a period of 8 years.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 3 - Investee Companies (cont'd)**

### **A. Changes in investments during the quarter (cont'd)**

#### **3. Shufersal Ltd. (hereinafter – Shufersal), a 40% held affiliate**

- a. In March 2008 Shufersal signed an agreement for the sale of its entire holdings (50%) in Israel Kanyonim Ltd. (“Kanyonim”) for the price of NIS 157 million (net of selling costs). NIS 30 million of the consideration was deposited with a trustee and the balance is payable upon the closing of the transaction and fulfillment of the transaction’s suspending conditions, which have not yet been fulfilled. Following the said sale, the investment property of Kanyonim was revalued on the basis of a valuation that was prepared on the basis of the sale transaction.

As a result, Shufersal recorded its share in the gain in the amount of NIS 27 million, as well as its share in the deferred tax liability in the amount of NIS 7 million. On the basis of the information existing as at balance sheet date, the total net after-tax gain on the sale of Kanyonim is anticipated to amount to NIS 23 million, which will mostly be recorded in the second quarter of 2008. The Company’s share in the said gain amounts to NIS 9 million.

- b. In March 2008 Shufersal signed an agreement for the sale of one of its investment properties for the price of NIS 47 million, which was paid on April 30, 2008. NIS 10 million of the consideration was paid in the form of a loan of Shufersal to the buyer that is payable on April 30, 2010, against a bond of the buyer. Following the said agreement, during the quarter Shufersal revalued the investment property in respect of this asset according to the price of the transaction, and accordingly the amount of NIS 18 million was added to its book value.

#### **4. Koor Industries Ltd. (hereinafter – Koor), a 49.5% held affiliate**

- a. In March 2008 the board of directors of Koor authorized its management to make financial investments in marketable shares of Bank Credit Suisse and Barclays Bank. In this respect, Koor signed an agreement with Goldman Sachs for the provision of a recourse line of credit (in accordance with the agreement the withdrawal of credit in excess of \$ 250 million is subject to certain conditions). In May 2008, subsequent to balance sheet date, a foreign partnership wholly owned by Koor signed an additional agreement with Goldman Sachs regarding non-recourse credit to be provided by means of financial derivatives transactions. The overall credit facility at the disposal of Koor in accordance with the two aforementioned agreements is \$ 1.5 billion, and will be divided between the two lines of credit at the proportion of 5/11 of recourse credit and 6/11 of non-recourse credit (this credit proportion will come into effect only after the withdrawal of more than \$ 250 million of recourse credit). In the event that the credit facilities are fully used, the investment in shares of the aforementioned financial institutions, including the shareholders’ equity required from Koor, may reach up to \$ 2.7 billion.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 3 - Investee Companies (cont'd)**

### **A. Changes in investments during the quarter (cont'd)**

#### **4. Koor Industries Ltd. (cont'd)**

##### **a. (cont'd)**

To date, the board of directors of Koor has approved investing up to NIS 1.5 billion in such shares. At this point only immaterial amounts of shares of Barclays Bank have been purchased. Use of the credit facilities and Koor's investments in the shares are subject to several conditions, including Koor's assessments regarding market developments. There is no certainty regarding execution of the investment and its amount. As at the date of these financial statements, the credit facility provided in the aforementioned agreements has not yet been utilized.

- b.** In January and February 2008 the Company purchased on the Tel Aviv Stock Exchange 2.7% of the issued share capital of Koor for the price of NIS 110 million. Following the aforementioned purchase, the Company holds 49.5% of the share capital and voting rights in Koor. As a result of the said purchase, the Company acquired excess cost of NIS 55 million, of which NIS 28 million is allocated excess cost and the balance is goodwill.
- c.** The exchange rate of the dollar decreased by 7.6% in the first quarter of 2008. As a result, Koor recorded a loss in the amount of NIS 128 million in the first quarter in respect of net balances denominated in dollars or linked thereto, of financial assets and liabilities of Koor. The share of the Company in the said loss amounts to NIS 63 million.

#### **5. Changes in other investments**

- a.** In February 2008, GVT (Holding) N.V. (hereinafter – GVT), which is held by the Company at the rate of 16%, sold 3.5% of the share capital of a Brazilian company of which it held 26.4%, for a total consideration of 167 million Brazilian real, at the price of 37.5 Brazilian real per share. The shares of the Brazilian company are traded on a stock exchange in Brazil. As a result of the transaction, in the first quarter of 2008 the Company recorded its share in the gain of GVT on the transaction in the amount of NIS 37 million. In March 2008 GVT distributed a cash dividend totaling \$ 90 million. The Company's share in the said dividend amounted to NIS 52 million.

### **B. Attached financial statements of GVT, a 16% held affiliate**

The financial statements of GVT are prepared according to US GAAP. The Company states its investment in GVT on the equity basis, on the basis of the financial statements of GVT which were first adjusted to IFRS.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## Note 3 - Investee Companies (cont'd)

### **B. Attached financial statements of GVT (cont'd)**

The effect of the adjustment of the financial statements of GVT to IFRS is as follows:

	<u>As reported</u>	<u>Adjustment</u> \$ thousand	<u>Balance</u> <u>according to</u> <u>the IFRS</u>
<b>1. The effect on the shareholders' equity</b>			
As at march 31, 2008	<u>184,665</u>	<u>36,215</u>	<u>220,880</u>
As at March 31, 2007	<u>162,166</u>	<u>18,427</u>	<u>180,593</u>
As at December 31, 2007	<u>207,455</u>	<u>43,320</u>	<u>250,775</u>
<b>2. The effect on net earnings</b>			
For the three month period ended March 31, 2008	<u>67,231</u>	<u>(5,096)</u>	<u>62,135</u>
For the three month period ended March 31, 2007	<u>234,465</u>	<u>(18,917)</u>	<u>215,548</u>
For the year ended December 31, 2007	<u>251,939</u>	<u>2,923</u>	<u>254,862</u>

## Note 4 - Events in the Current Period

### **A. Taxes on income**

On February 26, 2008 the Knesset enacted the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Restriction of Effective Period) – 2008 (“Amendment No. 20”). In accordance with Amendment No. 20, the effective period of the Adjustments Law ended in the 2007 tax year, other than the transitional provisions intended at preventing distortions in the tax calculations. In accordance with Amendment No. 20, as from the 2008 tax year income for tax purposes will no longer be adjusted to a real (net of inflation) measurement basis. Furthermore, the depreciation of inflation immune assets and carried forward tax losses will no longer be linked to the CPI, so that these amounts will be adjusted until the end of the 2007 tax year after which they will cease to be linked to the CPI.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 4 - Events in the Current Period (cont'd)**

- B.** In the first quarter of 2008 the exchange rate of the dollar decreased by 7.6% - from NIS 3.846 to NIS 3.553 per dollar. As a result the Company recorded a loss in the amount of NIS 88 million on balances of assets and liabilities, net, denominated in dollars or linked thereto (not including such balances in its investee companies).

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## Note 5 - Equity and Reserves

### Changes in equity

	Attributable to the equity holders of the Company										Total equity attributable to the equity holders of the Company	Minority interests	Total equity			
	Share capital	Share premium	Receipts on account of options	Capital reserves from translation differences	Hedge reserves	Capital reserves in respect of available for sale financial assets	Revaluation reserves	Retained earnings								
			N	I	S	m	i	l	l	i	o	n	s			
<b>For the year ended December 31, 2007 (audited)</b>																
Balance as at January 1, 2007	735	4,109	-	-	-	(22)	27	-	-	-	604	-	-	5,453	2,449	7,902
Issuance of shares and options	4	519	10	-	-	-	-	-	-	-	-	-	-	533	-	533
Exercise of share options	3	383	(7)	-	-	-	-	-	-	-	-	-	-	379	-	379
Expiry of options	-	3	(3)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid to the equity holders of the Company	-	-	-	-	-	-	-	-	-	-	(2,076)	-	-	(2,076)	-	(2,076)
Share of the minority in dividends paid by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(287)	(287)
Increase in minority rights following issuance of rights in subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	207	207
Sale of rights to the minority *	-	-	-	-	-	-	-	-	-	-	-	-	-	-	497	497
Decrease in minority interest following discontinuance of consolidation of subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,019)	(1,019)
Share-based payments granted by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38	38
Total income for the period	-	-	-	(303)	-	1	26	1	1	1,669	-	-	-	1,394	500	1,894
Balance as at December 31, 2007	<u>742</u>	<u>5,014</u>	<u>-</u>	<u>(303)</u>	<u>-</u>	<u>(21)</u>	<u>53</u>	<u>1</u>	<u>1</u>	<u>197</u>	<u>5,683</u>	<u>-</u>	<u>-</u>	<u>5,683</u>	<u>2,385</u>	<u>8,068</u>

\* Including issuance of shares to minority in subsidiary.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## Note 5 - Equity and Reserves (cont'd)

### Changes in equity (cont'd)

	Attributable to the equity holders of the Company											
	Share capital	Share premium	Capital reserves from translation differences		Hedge reserves	Capital reserves in respect of available for sale financial assets		Revaluation reserves	Retained earnings	Total equity attributable to the equity holders of Company	Minority interests	Total equity
			N	I		S	m					
<b>For the three months ended March 31, 2008 (unaudited)</b>												
Balance as at January 1, 2008	742	5,014	(303)	(21)	53	1	197	5,683	2,385	8,068		
Share of the minority in dividends proposed by subsidiaries	-	-	-	-	-	-	-	-	(433)	(433)		
Acquisition of minority interests	-	-	-	-	-	-	-	-	(80)	(80)		
Sale of minority interests	-	-	-	-	-	-	-	-	30	30		
Share-based payments granted by subsidiaries	-	-	-	-	-	-	-	-	6	6		
Total (expense) income for the period	-	-	(303)	(12)	(11)	9	186	(131)	109	(22)		
Balance as at March 31, 2008	<u>742</u>	<u>5,014</u>	<u>(606)</u>	<u>(33)</u>	<u>42</u>	<u>10</u>	<u>383 **</u>	<u>5,552</u>	<u>2,017</u>	<u>7,569</u>		

\* Including issuance of shares to minority in subsidiary.

\*\* See also note 6.H regarding a dividend that was declared on the date of approval of the financial statements.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## Note 5 - Equity and Reserves (cont'd)

### Changes in equity (cont'd)

	Attributable to the equity holders of the Company										
	Share capital	Share premium	Capital reserves from translation differences			Hedge reserves	Capital reserves in respect of available for sale financial assets	Retained earnings	Total equity attributable to the equity holders of Company	Minority interests	Total equity
			N	I	S						
<b>For the three months ended March 31, 2007 (unaudited)</b>											
Balance as at January 1, 2007	735	4,109	-	(22)	27	604	5,453	2,449	7,902		
Share of the minority in dividends paid by subsidiaries	-	-	-	-	-	-	-	(10)	(10)		
Sale of minority interests *	-	-	-	-	-	-	-	140	140		
Share-based payments granted by subsidiaries	-	-	-	-	-	-	-	13	13		
Total income for the period	-	-	(56)	5	9	978	936	133	1,069		
Balance as at March 31, 2007	735	4,109	(56)	(17)	36	1,582	6,389	2,725	9,114		

\* Including issuance of shares to minority in subsidiary.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 6 - Subsequent Events**

- A.** In May 2008 Netvision Ltd. (hereinafter – Netvision), an affiliate of the Company (held 33% by the Company directly and 16% by Elron Electronic Industries Ltd. (hereinafter – Elron), an affiliate of the Company held at the rate of 47%), signed an agreement with Bank Leumi le-Israel B.M. (“the bank”) for the purchase of the bank’s holding (15%) in the issued share capital of HOT – Telecommunication Systems Ltd. (“HOT”), a public company the shares of which are traded on the Tel Aviv Stock Exchange Ltd. In accordance with the agreement, Netvision shall pay the bank the amount of NIS 480 million for the acquired shares, of which NIS 320 million will be paid on the date of closing the transaction, and the balance of NIS 160 million (“the deferred payment”) will be paid to the bank within 18 months from the date of closing the transaction. The deferred payment shall bear nominal annual interest of 4% as from the date of closing the transaction until the actual date of payment. As security for the payment Netvision shall pledge a third of the acquired shares under a single first degree lien, with no other recourse of the bank to Netvision.
- The closing of the transaction is contingent upon fulfillment of the following conditions up to and no later than August 15, 2008: (a) the shareholders of HOT waiving or not exercising their right of refusal regarding purchase of the said shares; (b) receipt of the approvals required by law to the purchase of the said shares. There is no certainty that the transaction will be completed.
- B.** In April 2008 Koor submitted a second draft prospectus for the execution of an issuance by means of offering rights to its shareholders, on the basis of the financial statements of Koor for December 31, 2007. The draft prospectus does not specify the amount of the issuance, its terms or its date, and there is no certainty that it will be executed.
- C.** In April 2008 the Company completed acquisition of the entire holding of Praxair Inc. (50.02% of equity and 52.93% in voting) in Maxima Air Separation Center Ltd. (“Maxima”) for the price of NIS 85 million. As a result, the Company holds 75% of the share capital and 77% of the voting rights in Maxima, and as from the second quarter of 2008 the Company shall fully consolidate the financial statements of Maxima in its financial statements.
- D.** In April 2008 Property & Building distributed a cash dividend in the amount of NIS 216 million. The Company’s share in the said dividend amounted to NIS 147 million.
- E.** In May 2008 the board of directors of Shufersal resolved to distribute a cash dividend in the amount of NIS 270 million that will be paid in June 2008. The Company’s share in the said dividend amounts to NIS 107 million.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 6 - Subsequent Events (cont'd)**

- F.** In May 2008 the board of directors of Cellcom resolved to distribute a cash dividend in the amount of NIS 258 million that will be paid in June 2008. The Company's share in the said dividend amounts to NIS 136 million.
- G.** In May 2008 Elron published a special purchase offer for 5% of the issued share capital of Given Imaging Ltd. (hereinafter – Given Imaging) for a total of \$ 24 million. Given Imaging is 27.4% held by Elron (including 9% by its subsidiary) and 16% held by the Company.
- H.** On the date of approval of the financial statements, the Company's Board of Directors decided to distribute a cash dividend in the amount of NIS 150 million, constituting NIS 1.76 per ordinary share. The dividend will be distributed on June 12, 2008 with the date of record being May 27, 2008 and the ex-day being May 28, 2008.

## **Note 7 - Contingent Liabilities**

*The amounts of the claims described below are true for the dates on which they were filed, unless otherwise indicated.*

- A.** See Notes 19 and 20 of the annual financial statements regarding claims pending against the Company and its investee companies as at the date of approval of these financial statements.
- B. Claims filed after the approval of the annual financial statements**
1. In April 2008 a claim and an application to certify the claim as a class action were filed against Cellcom with the Tel Aviv-Jaffa District Court by plaintiffs contending they are subscribers of Cellcom. In the claim it is alleged that Cellcom overcharged certain subscribers who are entitled to refunds according to their agreements with Cellcom, as the result of an incorrect calculation of the refunds. The plaintiffs estimate the amount claimed at NIS 100 million if the claim is certified as a class action. At this early stage Cellcom is unable to assess the chances of the claim, and therefore no provision was included in the financial statements of Cellcom in respect thereto.
  2. In April 2008 a claim and an application to certify the claim as a class action under the Class Actions Law – 2006 were filed with the Tel Aviv-Jaffa District Court against a number of companies that sell international calling cards, including Netvision 013 Barak Ltd. ("Barak"), a wholly owned subsidiary of Netvision. In the claim it is alleged, inter alia, that the defendants misled the users of international calling cards as regards the actual time the calling cards can be used

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 7 - Contingent Liabilities (cont'd)**

### **B. Claims filed after the approval of the annual financial statements (cont'd)**

2. (cont'd)

compared to the time presented to the users of the calling cards and its method of calculation, and as regards the deduction of time from the calling cards when waiting for a call that is not answered. It is further alleged in the claim that the defendants coordinated prices of calls made using the calling cards, and the plaintiffs allege that this constitutes a restrictive arrangement and/or abuse of a monopoly. The plaintiffs request various forms of relief from the court, including that the defendants be ordered to compensate the purchasers of the calling cards and return profits and benefits that were derived from the alleged acts of commission and omission, and that the defendants be ordered to cease from the alleged acts of commission and omission. The plaintiffs estimate that until the date of filing the application, damages in the amount of NIS 400 million were caused to the members of the group by all the defendants as a result of the alleged misleading, and that the share of Barak is 30% of such damages.

In addition, the plaintiffs assess at NIS 9 million the damages caused to all the members of the group by all the defendants until the date of filing the application as a result of the coordination of prices. At this point Netivision and its legal advisors are unable to assess the chances of the application to certify the claim as a class action or its possible effect on Netivision. Therefore no provision was included in the financial statements of Netivision in respect of this claim.

3. In April 2008 a claim and an application to certify the claim as a class action under the Consumer Protection Law – 1981 were filed against Barak with the Tel Aviv-Jaffa District Court. In the claim it is alleged, inter alia, that Barak misled the users of international calling cards to Thailand in that it refrained from granting a benefit that it had advertised and that it had charged excess use fees on these calling cards in respect of minutes that were not actually used. The plaintiff requests from the Court various forms of relief, including that Barak be ordered to grant the benefit of free minutes or use as aforementioned and charge its customers only in respect of the actual number of minutes used. The plaintiff estimates that damages in the amount of NIS 138 million were caused to the said group of calling card users. At this point Netivision and its legal advisors are unable to assess the chances of the application to certify the claim as a class action or its possible effect on Netivision. Therefore no provision was included in the financial statements of Netivision in respect of this claim.

4. In April 2008 a claim and an application to certify the claim as a class action under the Class Actions Law – 2006 were filed with the District Court against Barak and another company that sells international calling cards. The claim includes allegations against, inter alia, the method of calculation (which according to the claim is based on rounding the time of the call into whole minutes), the non-disclosure of the said method, and the excess amount that is charged for more than the actual time of the call. Various forms of relief are requested from the court in the claim, including that the users of the calling cards receive a credit in respect of the seconds they were charged for after the disconnection of a call in the last seven years, with the addition of interest, as

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 7 - Contingent Liabilities (cont'd)**

### **B. Claims filed after the approval of the annual financial statements (cont'd)**

4. (cont'd)

well as declaratory relief and an injunction against measuring calls according to minute time units and charging for seconds after the disconnection of the call. The plaintiff estimates that until the date of filing the application, damages in the amount of NIS 158 million were caused to the members of the group of calling card users as a result of the alleged charging method, without specifying the amount claimed from each one of the defendants. At this point Netvision and its legal advisors are unable to assess the chances of the claim or its possible effect on Netvision. Therefore no provision was included in the financial statements of Netvision in respect of this claim.

5. In May 2008 a claim and an application to certify the claim as a class action were filed with the Tel Aviv-Jaffa District Court against Cellcom and two other cellular companies by plaintiffs contending they are subscribers of the defendants. In the claim it is alleged that the defendants wrongly charged their subscribers for failed attempts to make certain calls when the subscribers were abroad. The plaintiffs estimate the amount claimed from all three defendants at NIS 50 million if the claim is certified as a class action, and they do not specify the amount attributed to Cellcom. At this early stage, Cellcom is unable to evaluate the chances of the claim. Therefore, no provision was included in the financial statements of Cellcom in respect of this claim.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## Note 8 - Business Segments

	Communications	Technology	Retail and services	Real- estate	Industry	Total
	N I S	m i	l l	i o	n s	
<b>Data from the statement of income for the three months ended March 31, 2008</b>						
Revenues of the segment	1,595	-	5	274	67	1,941
The Company's equity in net earnings (losses) of affiliated companies	46	(38)	31	59	(62)	36
Gain from realization and revaluation of investments and assets, net	183	-	1	24	5	213
Other income	-	-	-	18	-	18
Total revenues (loss) for the period	<u>1,824</u>	<u>(38)</u>	<u>37</u>	<u>375</u>	<u>10</u>	<u>2,208</u>
Segment results for the period	<u>633</u>	<u>(38)</u>	<u>32</u>	<u>203</u>	<u>(48)</u>	<u>782</u>
<b>Data from the statement of income for the three months ended March 31, 2007</b>						
Revenues of the segment	1,438	-	2,416	160	87	4,101
The Company's equity in net earnings (losses) of affiliated companies	116	19	-	35	13	183
Gain from realization and revaluation of investments and assets, net	674	-	(4)	(3)	-	667
Other income	2	-	2	2	-	6
Total revenues for the period	<u>2,230</u>	<u>19</u>	<u>2,414</u>	<u>194</u>	<u>100</u>	<u>4,957</u>
Segment results for the period	<u>1,131</u>	<u>19</u>	<u>94</u>	<u>106</u>	<u>30</u>	<u>1,380</u>
<b>Data from the 2007 statement of income</b>						
Revenues of the segment	6,045	-	7,323	711	305	14,384
The Company's equity in net earnings (losses) of affiliated companies	147	(105)	38	54	(107)	27
Gain from realization and revaluation of investments and assets, net	821	2	504	171	(3)	1,495
Other income	1	-	7	6	-	14
Total revenues (loss) in 2007	<u>7,014</u>	<u>(103)</u>	<u>7,872</u>	<u>942</u>	<u>195</u>	<u>15,920</u>
Segment results for 2007	<u>2,265</u>	<u>(103)</u>	<u>868</u>	<u>526</u>	<u>(64)</u>	<u>3,492</u>

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## **Note 9 - Reconciliations of Reports under Israeli GAAP to Reports under IFRS**

### **A. Guidelines of Accounting Standard No. 29 regarding the adoption of IFRS**

In accordance with Accounting Standard No. 29, "First Time Adoption of International Financial Reporting Standards (IFRS)" (hereinafter – Standard 29), the Company is required to prepare its financial statements according to IFRS as from reporting periods beginning on or after January 1, 2008. The opening balance sheet according to IFRS will be as at January 1, 2007 (the date of the Company's transition to IFRS, hereinafter – the transition date). The initial implementation of IFRS is effected along with the implementation of IFRS 1, "First Time Adoption of International Financial Reporting Standards", for purposes of the transition.

### **B. Reconciliation of Israeli GAAP to IFRS**

1. IFRS 1 requires presenting a reconciliation in respect of the financial statement data that were published in the past and are included as comparative data in these financial statements, between the amounts of the said financial statement data presented in accordance with Israeli GAAP, as were published in the past, and the amounts that would have been presented if the said financial statements had been prepared in accordance with IFRS.
2. See Note 30 of the annual financial statements for a reconciliation of the consolidated balance sheet items and the Company's equity as at December 31, 2007 and of the consolidated statement of income data for the year ended December 31, 2007, and details regarding the relief the Company has chosen as at the date of transition in accordance with IFRS 1. A number of classifications were made in these interim financial statements with respect to the balance sheet data and statement of income data presented in the aforementioned note. The principal classifications are as follows: the item of other investments and loans, including derivatives, increased by the amount of NIS 13 million; the item of deferred expenses decreased by NIS 49 million; the item of non-current financial liabilities increased by NIS 601 million; the item of current financial liabilities decreased by NIS 518 million; the over draft item decreased by NIS 79 million; the item of provisions increased by NIS 91 million; the item of current tax liabilities increased by NIS 12 million. Other than these classifications there were no changes in the said reconciliation note.
3. Presented hereunder is a reconciliation presenting the material effects of implementing IFRS on the Company's consolidated balance sheet and equity as at March 31, 2007 and on the Company's consolidated statement of income for the three months ended March 31, 2007. Following the initial consolidation of the financial statements of Ham-Let (Israel Canada) Ltd. ("Ham-Let"), over which the Company has control by virtue of a voting agreement, the comparative figures under Israeli GAAP were changed for the aforementioned period. The effect of this change on the comparative figures under Israeli GAAP was immaterial, except for the following items: as at March 31, 2007 the amount of NIS 134 million was added to inventory, the amount of NIS 46 million was added to bank credit and current maturities and the liabilities for employee severance benefits, net, amounted to NIS 4 million.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 9 - Reconciliations of Reports under Israeli GAAP to Reports under IFRS (cont'd)**

### **B. Reconciliation of Israeli GAAP to IFRS (cont'd)**

#### 3. (cont'd)

Furthermore, presented hereunder is an explanation of the material adjustments in the Company's consolidated statements of cash flows for the year ended December 31, 2007 and for the three months ended March 31, 2007.

- C. This note was prepared on the basis of presently known IFRS, which were issued and will be in effect, or can be adopted early, on the first date of the Company's annual report according to IFRS, December 31, 2008, and were the basis for the Company's accounting policy. The IFRS that will be in effect or can be adopted in the annual financial statements for the year ended December 31, 2008 are subject to changes and the issuance of further interpretations, and therefore full certainty does not yet exist regarding their instructions and provisions. Accordingly, the accounting principles that were applied in respect of the periods presented will be determined finally only when the first financial statements are prepared according to IFRS for December 31, 2008.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## Note 9 - Reconciliations of Reports under Israeli GAAP to Reports under IFRS (cont'd)

### C. (cont'd)

Adjustments following the transition to reporting according to IFRS, in the Company's consolidated balance sheet as at March 31, 2007:

	Item	Israeli	Effect of the transition	IFRS
		GAAP*	to reporting according to IFRS	
		N I S	m i l l i o n s	
<b>Non-current assets</b>				
Investments in affiliated companies	1, 3, 4	3,929	(33)	3,896
Other investments and loans, including derivatives	1	87	99	186
Fixed assets	2	4,511	(150)	4,361
Investment property		4,892	(74)	4,818
Investment property under construction		-	90	90
Funding for employee benefits		-	9	9
Long-term receivables	1	526	20	546
Non-current inventory	2	221	(1)	220
Deferred expenses		33	129	162
Deferred tax assets	2	10	106	116
Intangible assets		4,196	49	4,245
		<u>18,405</u>	<u>244</u>	<u>18,649</u>
<b>Current assets</b>				
Other investments, including derivatives		568	(1)	567
Receivables and debit balances	2	1,131	(164)	967
Current tax assets		-	38	38
Trade receivables	2	2,606	(16)	2,590
Inventory		900	-	900
Inventory of buildings held for sale	2	360	297	657
Cash and cash equivalents		4,826	-	4,826
		<u>10,391</u>	<u>154</u>	<u>10,545</u>
		<u>28,796</u>	<u>398</u>	<u>29,194</u>

\* Reclassified. See note 9.b.3.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## Note 9 - Reconciliations of Reports under Israeli GAAP to Reports under IFRS (cont'd)

### C. (cont'd)

Adjustments following the transition to reporting according to IFRS, in the Company's consolidated balance sheet as at March 31, 2007 (cont'd):

Item	Israeli GAAP *	Effect of the transition to reporting according to IFRS	IFRS	
	N I S	m i l l i o n s		
<b>Equity</b>				
Equity attributed to the Company's shareholders	1, 2, 3, 4	6,357	32	6,389
Minority interests	1, 2, 7	2,746	(21)	2,725
		9,103	11	9,114
<b>Non-current liabilities</b>				
Financial liabilities	2	13,558	20	13,578
Deferred income		16	-	16
Provisions		18	81	99
Deferred tax liabilities	1, 2	828	(10)	818
Employee benefits		23	35	58
		14,443	126	14,569
<b>Current liabilities</b>				
Financial liabilities		793	-	793
Payables, credit balances and current liabilities	2	1,966	(150)	1,816
Trade payables		2,489	(44)	2,445
Current tax liabilities		-	312	312
Revolving credit		2	-	2
Deferred income		-	2	2
Provisions		-	141	141
		5,250	261	5,511
		28,796	398	29,194

\* Reclassified. See note 9.b.3.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## Note 9 - Reconciliations of Reports under Israeli GAAP to Reports under IFRS (cont'd)

### C. (cont'd)

Adjustments following the transition to reporting according to IFRS, in the Company's consolidated statement of income for the three months ended March 31, 2007:

Item	Israeli	Effect of the transition to		IFRS
	GAAP *	reporting according to		IFRS
	N I S	I F R S		n s
<b>Income</b>				
Sales and services	2	4,169	(68)	4,101
Company's equity in the net earnings of affiliated companies	3, 4, 6	117	66	183
Gain from realization and revaluation of investments and assets, net	4	605	62	667
Other income, net		5	1	6
Financial income	5	-	123	123
		<u>4,896</u>	<u>184</u>	<u>5,080</u>
<b>Expenses</b>				
Cost of sales and services	2	2,725	(44)	2,681
Selling expenses	2	683	(5)	678
General and administrative expenses	2	257	(24)	233
Financial expenses	2, 5	96	131	227
		<u>3,761</u>	<u>58</u>	<u>3,819</u>
Earnings before income tax		1,135	126	1,261
Income tax	2	(147)	(1)	(148)
<b>Net earnings for the period</b>		<u>988</u>	<u>125</u>	<u>1,113</u>
Attributable to:				
The Company shareholders	2, 3, 4, 6	851	127	978
Minority interests	2	137	(2)	135
		<u>988</u>	<u>125</u>	<u>1,113</u>
<b>Net earning per NIS 1 par value of ordinary shares:</b>		<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
Basic earnings per share		<u>11.0</u>	<u>1.6</u>	<u>12.6</u>
Diluted earnings per share		<u>10.9</u>	<u>1.6</u>	<u>12.5</u>

\* Reclassified. See note 9.b.3.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## Note 9 - Reconciliations of Reports under Israeli GAAP to Reports under IFRS (cont'd)

### C. (cont'd)

Adjustments following the transition to reporting according to IFRS, in equity as at March 31, 2007:

	Share Capital	Share premium	Dividend declared subsequent to balance sheet date	Retained earnings	Capital reserves from translation differences	Hedge reserves	Capital reserves in respect of available for sale assets	Other capital reserves	Total equity attributed to the Company's shareholders	Minority interest	Total Equity
	N I S m i l l t i o n s										
Israeli GAAP	735	4,109	816	805	(286)	(17)	-	195	6,357	-	6,357
1 Valuation of available for sale financial instruments according to fair value	-	-	-	-	-	-	36	-	36	2	38
2 Change in method of recognizing revenue from the sale of apartments	-	-	-	(18)	-	-	-	-	(18)	(14)	(32)
3 Liabilities to Chief Scientist in respect of Government grants	-	-	-	(61)	-	-	-	-	(61)	-	(61)
4 Accounting for business combinations under common control at fair value as from the transition date	-	-	-	106	-	-	-	3	109	-	109
6 Inclusion in retained earnings of the balance on the transition date of capital reserves from capital reserves	-	-	-	(34)	232	-	-	(198)	-	-	-
7 Reclassification of the minority interest as a separate component of the equity	-	-	-	-	-	-	-	-	-	2,746	2,746
8 Change in classification of dividend declared subsequent to balance sheet date in the statement of shareholders' equity	-	-	(816)	816	-	-	-	-	-	-	-
Other changes	-	-	-	(32)	(2)	-	-	-	(34)	(9)	(43)
<b>IFRS</b>	<b>735</b>	<b>4,109</b>	<b>-</b>	<b>1,582</b>	<b>(56)</b>	<b>(17)</b>	<b>36</b>	<b>-</b>	<b>6,389</b>	<b>2,725</b>	<b>9,114</b>

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 9 - Reconciliations of Reports under Israeli GAAP to Reports under IFRS (cont'd)**

### **Details of the material adjustments for the transition to reporting according to IFRS in the first quarter of 2007**

- 1. Valuation of available for sale financial instruments according to fair value and balance sheet reclassification** – In accordance with Israeli GAAP the Company classified its investments in non-marketable shares as permanent investments that are measured at cost, net of impairment in value not having a temporary nature. In accordance with IFRS, the Company classifies these investments as available for sale financial assets, and they are measured at fair value on every balance sheet date. Changes in their fair value are included in a capital reserve in respect of available for sale financial assets, other than prolonged or significant impairment in value that are included in the statement of income. The effect of the transition to reporting according to IFRS as at March 31, 2007 was reflected in an increase in other investments, including derivatives, in the amount of NIS 91 million; a decrease in investments in affiliated companies in the amount of NIS 57 million; an increase in long-term receivables in the amount of NIS 7 million; an increase in deferred tax liabilities in the amount of NIS 2 million; an increase in the capital reserve for available for sale assets in the amount of NIS 36 million; and an increase in the minority interest in the amount of NIS 2 million.
- 2. Change in method of recognizing revenue from the sale of apartments** – In accordance with Israeli GAAP, the revenue of contractors from the sale of apartments is recognized over the period of constructing the apartments, subject to the percentage of completion of the project equaling or exceeding 25% and the accumulated sales proceeds equaling or exceeding 50% of the total proceeds from the project. In accordance with IFRS, the revenue of contractors from the sale of apartments is recognized when the apartments are handed over to the buyers.  
Accordingly, as at March 31, 2007 the inventory of buildings held for sale increased by the amount of NIS 297 million; the balance of payables, credit balances and current liabilities increased by NIS 304 million; the fixed assets decreased by NIS 3 million; the non-current inventory decreased by NIS 1 million; the deferred tax assets increased by NIS 11 million; the receivables and debit balances increased by NIS 5 million; the trade receivables decreased by NIS 15 million; the financial liabilities increased by NIS 20 million; the deferred tax liabilities increased by NIS 1 million; the retained earnings decreased by NIS 18 million and the minority interests decreased by NIS 14 million. In addition, in the three months ended March 31, 2007 there was a decrease in revenues from sales and services in the amount of NIS 19 million; a decrease in the cost of sales and services in the amount of NIS 14 million; an increase in selling expenses in the amount of NIS 4 million; a decrease in general and administrative expenses in the amount of NIS 1 million; a decrease in financing expenses in the amount of NIS 1 million; a decrease in taxes on income in the amount of NIS 2 million; and in total – a decrease in net income in the amount of NIS 5 million that includes a decrease in the amount of NIS 3 million in the income attributable to the Company's equity holders and a decrease in the amount of NIS 2 million in the income attributable to the minority interests.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## **Note 9 - Reconciliations of Reports under Israeli GAAP to Reports under IFRS (cont'd)**

### **Details of the material adjustments for the transition to reporting according to IFRS in the first quarter of 2007 (cont'd)**

3. **Commitment to the Chief Scientist in respect of Government grants** – In accordance with Israeli GAAP, grants from the Chief Scientist in respect of research and development projects were recognized upon their receipt as income and are presented as a deduction from the related research and development expenses. The likelihood of refunding the grant is not examined on a current basis and when a grant is refunded the expense is included in the cost of sales under the payment of royalties to the Chief Scientist. In accordance with IFRS, such grants are accounted for as forgivable loans according to the provisions of IAS 20. Accordingly, grants received from the Chief Scientist are recognized as a liability according to their fair value on the date of their receipt, measured according to the present value of the anticipated cash flows, unless on that date it is reasonably certain that the amount received will not be refunded. The amount of the liability is reexamined each period, and any changes in the fair value of the grant are recognized as income or expense. Accordingly, as at March 31, 2007 there was a decrease in the amount of NIS 61 million in the balance of the investment in affiliated companies against a corresponding decrease in retained earnings. In addition, in the three months ended March 31, 2007 there was a decrease in the amount of NIS 1 million in the share of the Company in the net income of affiliated companies and in the net income attributable of the equity holders of the Company.
  
4. **Accounting for business combinations under common control at fair value as from the transition date** – In accordance with the decision of the Securities Authority from April 2007 regarding the accounting treatment of transactions regarding business combinations under common control, the transaction in which Barak and Globecall were sold to Netvision was accounted for under the “As Pooling” method. According to this method, Netvision reported the assets and liabilities of Barak and Globecall in its financial statements according to their book value on the financial statements of Clal Industries and Investments Ltd. (hereinafter – CII) and the Company, as from the dates CII and the Company obtained control over Barak and Globecall, respectively.  
The difference between the share of the Company in the new shareholders’ equity of Netvision and the Company’s investment in Globecall and in Netvision before the transaction was included in the financial statements of the Company under a capital reserve. In accordance with IFRS the Company has chosen to account for business combinations under common control at their fair values as from the transition date. Accordingly, the assets and liabilities of Barak and Globecall were recorded in the financial statements of Netvision according to their fair values on the date of the transaction. The difference between the share of the Company in the new shareholders’ equity of Netvision and the Company’s investment in Globecall and in Netvision before the transaction, less the unrealized gain from the sale of Globecall, was included in the financial statements of the Company as a capital gain  
Accordingly, as at March 31, 2007 the balance of the investment in affiliated companies increased by NIS 109 million; the retained earnings increased by NIS 106 million; and the credit balance of other capital reserves increased by NIS 3 million. In addition, in the three months ended March 31, 2007 there was an increase in the Company’s share in the net income of affiliated companies in the amount of NIS 44 million; an increase in the gain from the realization and revaluation of investments in the amount of NIS 62

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## **Note 9 - Reconciliations of Reports under Israeli GAAP to Reports under IFRS (cont'd)**

### **Details of the material adjustments for the transition to reporting according to IFRS in the first quarter of 2007 (cont'd)**

4. (cont'd)  
million; and in total an increase in net income attributable to the equity holders of the Company in the amount of NIS 106 million.
5. **Presentation of financing income and expenses on a gross basis** – In accordance with Israeli GAAP the financing expenses were presented on a net basis. In accordance with IFRS, financing income and financing expenses are to be presented separately (on a gross basis). In the three months ended March 31, 2007 the financing income and financing expenses increased by NIS 122 million.
6. **Inclusion in retained earnings of the balance on the transition date of capital reserves from translation differences and other capital reserves** – In accordance with the exception in IFRS 1, the Company has chosen the alternative of including in the retained earnings the balance of the reserves, positive and negative, from the translation of financial statements of investee companies as at the transition date. Furthermore, on the transition date, capital reserves from transactions with controlling shareholders that are presented at fair value in accordance with IFRS (other than reserves created in business combinations) and other capital reserves that are not required in accordance with IFRS, were included in retained earnings. Accordingly, as at March 31, 2007 the balance of retained earnings decreased by the amount of NIS 34 million; the debit balance of capital reserves from translation differences decreased by the amount of NIS 232 million; and the credit balance of other capital reserves decreased by NIS 198 million. In addition, in the three months ended March 31, 2007 there was an increase in the Company's share in the net income of affiliated companies in the amount of NIS 16 million; and in total an increase in net income attributable to the equity holders of the Company in the amount of NIS 16 million.
7. **Reclassification of the minority interest as a separate item of the Company's shareholders' equity** – In accordance with Israeli GAAP, the minority interest is classified as a separate item between the long-term liabilities and the shareholders' equity. In accordance with IFRS, the minority interest in subsidiaries is classified as a separate item of equity.
8. **Reclassification of dividend declared subsequent to balance sheet date in the statement of changes in shareholders' equity** – In accordance with Israeli GAAP, a dividend declared subsequent to balance sheet date and before the date of approval of the financial statements was presented under shareholders' equity as a separate item "Dividend declared subsequent to balance sheet date" against a decrease in retained earnings. In accordance with IFRS, such a dividend only requires disclosure and does not require any equity classification.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Note 9 - Reconciliations of Reports under Israeli GAAP to Reports under IFRS (cont'd)**

### **Explanation of the principal adjustments to the statement of cash flows for the year ended December 31, 2007**

1. In accordance with Israeli GAAP interest received in the amount of NIS 276 million was classified as cash flows from operating activities. In accordance with IFRS and on the basis of the accounting policy adopted by the Company, interest received will be classified as cash flows from investing activities.
2. In accordance with Israeli GAAP, interest paid in the amount of NIS 734 million was classified as cash flows from operating activities. In accordance with IFRS and on the basis of the accounting policy adopted by the Company, interest paid will be classified as cash flows from financing activities.
3. In accordance with Israeli GAAP, the effect of exchange rate fluctuations on cash flows is a decrease in the amount of NIS 99 million which was presented as a cash flow from operating activities. In accordance with IFRS, the effects of exchange rate fluctuations on cash balances were classified as a separate item.

### **Explanation of the principal adjustments to the statement of cash flows for the three months ended March 31, 2007**

1. In accordance with Israeli GAAP interest received in the amount of NIS 47 million was classified as cash flows from operating activities. In accordance with IFRS and on the basis of the accounting policy adopted by the Company, interest received will be classified as cash flows from investing activities.
2. In accordance with Israeli GAAP, interest paid in the amount of NIS 241 million was classified as cash flows from operating activities. In accordance with IFRS and on the basis of the accounting policy adopted by the Company, interest paid will be classified as cash flows from financing activities.
3. In accordance with Israeli GAAP, the effect of exchange rate fluctuations on cash flows is a decrease in the amount of NIS 20 million which was presented as a cash flow from operating activities. In accordance with IFRS, the effects of exchange rate fluctuations on cash balances were classified as a separate item.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

## Annex to the Financial Statements of Discount Investment Corporation Ltd. as at March 31, 2008

### Details relating to major investments in the consolidated balance sheet as at March 31, 2008

	Equity and voting rights %	Carrying value of the investment N	Reserves *			Market value of the marketable shares as at	
			I	S	m	March 31 2008	May 19 2008
			i l l i o n s				
<b>Investments in affiliated companies</b>							
<u>Communications</u>							
GVT (Holding) N.V.	16	129		5	134		
Netvision Ltd.	33	431			431	367	404
Cellcom Israel Ltd.	53	2,147		29	2,176	6,083 **	6,242
<u>Technology</u>							
Elron Electronic Industries Ltd.	49	387		46	433	428	466
Expand Networks Ltd.	31	-		(1)	(1)		
Given Imaging Ltd.	16	146		24	170	283	259
Galil Medical Ltd.	13	5		1	6		
<u>Retail and services</u>							
Bartan Holdings & Investments Ltd.	56	18			18		
Super-Sol Ltd. ***	39	671		(3)	668	1,269	1,455
<u>Real-estate</u>							
Property and Building Corporation Ltd.	68	1,701		158	1,859	1,282 **	1,275
<u>Industry</u>							
Ham-Let (Israel-Canada)Ltd. ****	45	124		25	149	222	228
Koor Industries Ltd.	49.5	1,681		331	2,012	1,600	1,961
American Israeli Paper Mills Ltd.	21	154		4	158	224	255
Maxima Air-Separation Center Ltd. *** (see note 6.c)	24	27			27	34	34
Other companies		1					
Total		7,622					
Less investment in subsidiaries		(3,990)					
Add investments in affiliated companies of subsidiaries		842					
		<u>4,474</u>					

\* The Company's share in the capital reserves of investee companies that will mostly be included in the statement of income if the investment is realized.

\*\* The market value was not adjusted in respect of a dividend that was declared before balance sheet date but subsequently distributed.

\*\*\* Includes a holding through subsidiaries of the investee company.

\*\*\*\* The carrying value of the shares takes into account the put options of the minority to sell its holdings (7%) to the Company.

# Discount Investment Corporation Ltd.

Notes to the Financial Statements as at March 31, 2008

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## **Annex to the Financial Statements of Discount Investment Corporation Ltd. as at March 31, 2008 (cont'd)**

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### **Details relating to major investments in the consolidated balance sheet as at March 31, 2008 (cont'd)**

- (1) The Company and some of its investee companies are subject to restrictions under law with respect to the execution of new investments and the increase of existing investments in investee companies under certain circumstances. In addition, the provisions of certain laws and the terms of the licenses and concessions in the communications area, which were granted to a number of the Company's investee companies, include prohibitions against cross ownership which may limit the Company's ability to take advantage of business opportunities for new investments or to increase existing investments in this area.
- (2) The Company's investments in investee companies include, inter alia, shares of companies the sale of which is subject to certain restrictions. In particular, the Company's ability to sell its shares in Cellcom to non-Israeli parties is limited.