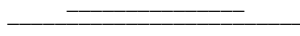


DBS SATELLITE SERVICE (1998) LTD.
CONDENSED INTERIM FINANCIAL STATEMENTS
AS OF MARCH 31, 2001
(Unaudited)

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AS OF MARCH 31, 2001
(Unaudited)

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May 14, 2001

The Board of Directors of
DBS Satellite Services (1998) Ltd.
6 Hayozma Street
Kfar Saba Industrial Zone

Re: Review of unaudited condensed interim financial statements for
the period ended March 31, 2001

At your request, we have reviewed the condensed interim balance sheet of DBS Satellite Services (1998) Ltd. (hereafter - the Company) as of March 31, 2001 and the condensed interim statements of operations, changes in the capital deficiency and cash flows, for the three month period then ended. Our review was performed in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel. Inter alia, these procedures include: reading of the aforementioned financial statements, reading of minutes of meeting of shareholders, the board of directors and its committees, and making inquiries of financial officers responsible for financial and accounting matters.

Since our review was limited in scope and did not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the abovementioned condensed interim financial statements.

During our review, nothing came to our attention that indicated that significant changes should be made in the aforementioned condensed statements in order for them to be considered as drawn up in conformity with generally accepted accounting principles and the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

We draw attention to Note 1a(3) of the condensed financial statements concerning the financial position of the Company, the memorandum of terms which the Company and banking corporations have signed, the financing agreement between the Company and those banks, which has yet to be signed, and the Company's assessment regarding the process of the signing of the agreement.

Sincerely yours,

Kesselman & Kesselman
A member of PriceWaterhouseCoopers International Limited

DBS SATELLITE SERVICE (1998) LTD.

CONDENSED BALANCE SHEET

AS OF MARCH 31, 2001

IN MARCH 2001 ADJUSTED NIS

	March 31		December 31,
	2001	2000	2000
	(Unaudited)		(Audited)
	In thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents		51,934	420
Accounts receivable:			
Trade	5,782		3,941
Other	24,265	17,752	42,643
T o t a l current assets	<u>30,047</u>	<u>69,686</u>	<u>47,104</u>
BROADCASTING RIGHTS:			
Cost	248,653	80,164	214,694
Less - utilized rights	43,789		32,255
	<u>204,864</u>	<u>80,164</u>	<u>182,439</u>
FIXED ASSETS:			
Cost	1,059,644	267,508	934,815
Less - accumulated depreciation	97,326	6,251	55,453
	<u>962,318</u>	<u>261,217</u>	<u>879,362</u>
ADVANCE ON ACCOUNT OF LICENSE FEES	29,261	30,039	29,628
	<u>1,226,490</u>	<u>441,146</u>	<u>1,138,433</u>
Liabilities, net of capital deficiency			
CURRENT LIABILITIES:			
Bank credit	566,685	40,877	490,176
Accounts payables and accruals:			
Trade	302,251	134,057	476,072
Others	15,863	47,081	36,113
T o t a l current liabilities	<u>884,799</u>	<u>222,015</u>	<u>1,002,361</u>
LONG-TERM LIABILITIES -			
shareholders' loans	1,148,335	355,768	759,973
T o t a l liabilities	<u>2,033,134</u>	<u>577,783</u>	<u>1,762,334</u>
CAPITAL DEFICIENCY	<u>(806,644)</u>	<u>(136,637)</u>	<u>(623,901)</u>
	<u>1,226,490</u>	<u>441,146</u>	<u>1,138,433</u>

David Brodet

Chairman of the Board of
Directors

Shlomo Liran

Chief Executive Officer

Anat Leon-Weiner

VP-Finance

Date of approval of the financial statements: May 14, 2001

The accompanying notes are an integral part of these condensed financial statements.

DBS SATELLITE SERVICE (1998) LTD.
CONDENSED STATEMENT OF OPERATIONS
FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2001
IN MARCH 2001 ADJUSTED NIS

	<u>3 months</u>		<u>Year ended</u> <u>December 31,</u> <u>2000</u>
	<u>ended</u> <u>March 31</u>		
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>In thousands</u>		
REVENUES	44,748		26,154
OPERATING EXPENSES	<u>139,803</u>		<u>*268,539</u>
GROSS LOSS	<u>95,055</u>		<u>242,385</u>
SELLING, MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES:			
Selling and marketing	43,725	26,395	*169,452
General and administrative	<u>31,014</u>	<u>17,172</u>	<u>106,487</u>
LOSS FROM CURRENT OPERATIONS	<u>169,794</u>	<u>43,567</u>	<u>518,324</u>
FINANCIAL EXPENSES, net	<u>12,949</u>	<u>10,325</u>	<u>22,841</u>
LOSS FOR THE PERIOD	<u><u>182,743</u></u>	<u><u>53,892</u></u>	<u><u>541,165</u></u>

* Reclassified.

The accompanying notes are an integral part of these condensed financial statements.

DBS SATELLITE SERVICE (1998) LTD.
CONDENSED STATEMENT OF CHANGES IN CAPITAL DEFICIENCY
FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2001
IN MARCH 2001 ADJUSTED NIS

	<u>Share capital and premium</u>	<u>Payments on account of shares</u>	<u>Accumulated deficit</u>	<u>Total</u>
	In thousands			
BALANCE AS OF JANUARY 1, 2001 (audited)	10		(623,911)	(623,901)
CHANGES DURING THE 3 MONTHS ENDED MARCH 31, 2001 (unaudited) - loss			(182,743)	(182,743)
BALANCE AS OF MARCH 31, 2001 (unaudited)	10		(806,654)	(806,644)
BALANCE AS OF 1 JANUARY, 2000 (audited)	*	1	(82,746)	(82,745)
CHANGES DURING THE 3 MONTHS ENDED MARCH 31, 2000 (unaudited) - loss			(53,892)	(53,892)
BALANCE AS OF MARCH 31, 2000 (unaudited)	*	1	(136,638)	(136,637)
BALANCE AS OF JANUARY 1, 2000 (audited)	*	1	(82,746)	(82,745)
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2000 (audited):				
Issue of share capital	10	(1)		9
Loss			(541,165)	(541,165)
BALANCE AS OF DECEMBER 31, 2000 (audited)	10	-,-	(623,911)	(623,901)

* Composed of 4 ordinary shares of NIS 1 par value.

The accompanying notes are an integral part of these condensed financial statements.

DBS SATELLITE SERVICE (1998) LTD.
CONDENSED STATEMENT OF CASH FLOWS
FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2001
IN MARCH 2001 ADJUSTED NIS

	<u>3 months ended</u>		<u>Year ended</u>
	<u>March 31</u>		<u>December 31,</u>
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>In thousands</u>		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss for the period	(182,743)	(53,892)	(541,165)
Adjustments required to reflect the cash flows from operating activities *	<u>(109,088)</u>	<u>113,953</u>	<u>383,945</u>
Net cash provided by (used in) operating activities	<u>(291,831)</u>	<u>60,061</u>	<u>(157,220)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(102,028)	(170,158)	(780,126)
Purchase of broadcasting rights	<u>(74,693)</u>	<u>(35,515)</u>	<u>(112,141)</u>
Net cash used in investing activities	<u>(176,721)</u>	<u>(205,673)</u>	<u>(892,267)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipt of long-term loans from shareholders	391,623	222,173	625,234
Short-term bank credit - net	<u>76,509</u>	<u>(69,265)</u>	<u>380,035</u>
Net cash provided by financing activities	<u>468,132</u>	<u>152,908</u>	<u>1,005,269</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(420)</u>	<u>7,296</u>	<u>(44,218)</u>
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>420</u>	<u>44,638</u>	<u>44,638</u>
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>-,-</u></u>	<u><u>51,934</u></u>	<u><u>420</u></u>

DBS SATELLITE SERVICE (1998) LTD.
CONDENSED STATEMENT OF CASH FLOWS
FOR THE 3 MONTH PERIOD ENDED 31 MARCH, 2001
IN MARCH 2001 ADJUSTED NIS

	<u>3 months ended</u>		<u>Year ended</u>
	<u>March 31</u>		<u>December 31,</u>
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>In thousands</u>		
* Adjustments required to reflect the cash flows from operating activities:			
Income and expenses not involving cash flows:			
Depreciation and amortization	53,774	4,156	86,026
Linkage differences on (erosion of) principal of shareholders' loans	(3,261)		1,141
	<u>50,513</u>	<u>4,156</u>	<u>87,167</u>
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable	16,537	(9,854)	(38,677)
Increase (decrease) in accounts payable and accruals:			
Trade	(155,888)	84,018	310,789
Other	(20,250)	35,633	24,666
	<u>(159,601)</u>	<u>109,797</u>	<u>296,778</u>
	<u>(109,088)</u>	<u>113,953</u>	<u>383,945</u>
Supplementary information on investment activities not involving cash flows:			
Purchase of fixed assets with suppliers' credit	<u>80,134</u>		<u>57,333</u>
Purchase of broadcasting rights with suppliers' credit	<u>17,170</u>		<u>57,904</u>

The accompanying notes are an integral part of these condensed financial statements.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

AS OF MARCH 31, 2001

- 1. a.** The condensed interim financial statements as of March 31, 2001 and for the three month period then ended (hereafter - the interim statements) were drawn up in a condensed form, in accordance with accounting principles generally accepted for interim financial statements and with the Securities Regulations (Periodic and immediate reports), 1970. The generally accepted accounting principles applied in preparation of the interim statements are consistent with those applied in the preparation of the annual financial statements. However, the interim statements do not include all the information and notes required for the annual financial statements.

- b. Activities**

DBS Satellite Services (1998) Ltd. (hereafter – the Company) was incorporated in Israel on December 2, 1998. In January 1999, the Company received a license from the Ministry of Communications to broadcast, in Israel, television broadcasts by means of satellite (hereafter - the License). The License is for a period of ten years from the date of its receipt, and can be extended for a period of six additional years on certain conditions. The Company paid an advance of approximately NIS 30 million on account of license fees (royalties), and provided a bank guarantee in an equal amount in favour of the State of Israel. The Company is subject to the Telecommunications Law, 1982 (hereafter - the Telecommunications Law), the regulations and rules promulgated thereunder and the terms of the License.

In July 2000, the Company completed the development stage and began to provide its customers with multi-channel television broadcasts in accordance with the License.

- c. The Company's financial position**

The Company expects significant losses and a negative cash flow from current operations during the first years of activity. The loss for 2000 amounted to approximately adjusted NIS 541 million, and the loss for the three months ended March 31, 2001 amounted to approximately adjusted NIS 183 million. As a result of these losses, the working capital deficiency increased to approximately adjusted NIS 855 million (including approximately adjusted NIS 567 million in short-term bank credit).

The financial sources for the Company's activities are shareholders' loans and bank credit.

On August 1, 2000, the Company signed a memorandum of terms (hereafter - the Memorandum) with banks, setting out the terms and stipulations likely to be included in a financing agreement (hereafter - the Financing Agreement) between the parties. The Memorandum prescribes, inter alia, preconditions for drawing funds from the credit line, including an undertaking by the Company to comply with cumulative milestones. Furthermore, it was determined in the Memorandum that "if the financing agreement is not signed by September 30, 2000, this Memorandum will not be valid".

As of the date of approval of these financial statements, the Financing Agreement between the Company and the banks has been agreed upon in principle, but has yet to be signed.

In the period from October 1, 2000 to the date of approval of these financial statements, the signatory banks to the above memorandum made another NIS 156 million of credit available to the Company.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(Unaudited)

AS OF MARCH 31, 2000

c. The Company's financial position (continued):

The management of the Company estimates that, following the agreement reached between certain shareholders regarding their proportional share in the injection of additional funds to the Company, the principal obstacles that caused the delay in signing the Financing Agreement have been removed.

d. Termination of the agreement with Bren Raviv Establishment and Enterprises Ltd.
(hereafter - Bren)

In February 2001, the Company gave Bren a 180 days notice, as required under the agreement between them, of its wish to terminate the agreement as to the management and current maintenance of the end user equipment installation array at the subscribers' premises.

Upon termination of the agreement, the Company intends to establish an independent array which will handle installations and provide maintenance services.

In 2000, the cost of the agreement to the Company amounted to approximately NIS 345 million.

e. Subsequent event

On May 10, 2001, a legal claim was lodged against the Company. In that claim, the plaintiff argued that the Company was misleading the consumer public in its advertisements regarding the possibility for the consumer to purchase certain channels only and regarding the number of channels offered. In addition, it was claimed that the Company obligated its subscribers to consume a maximum channel package even though they had not selected that package.

The plaintiff filed the claim as a representative of the Company's subscribers. Along with the claim the plaintiff filed an application for recognition of that claim as a class action under the Consumer Protection Law. The plaintiff's alleged personal damages are negligible, and the amount specified as cumulative damages for all members of the class is approximately NIS 177 million.

The court ordered the Company to respond to the application within 20 days from the date it was filed, that is, by May 30, 2001. The Company has not yet responded to the claim, and it intends to file an application for it to be stricken out in limine.

In the opinion of the Company's legal counsel, the prospects of defense against the claim as a class action are fair.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(Unaudited)

AS OF MARCH 31, 2000

2. Below are the changes which occurred during the reported periods in the exchange rate of the U.S. dollar (hereafter - the dollar) and in the consumer price index:

	<u>Exchange rate of the dollar</u>	<u>Consumer price index</u>
Three months ended March 31:		
2001	3.7%	(0.5%)
2000	(3.1%)	(1.2%)
Year 2000	(2.7%)	0%

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