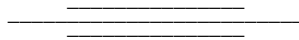


**DBS SATELLITE SERVICES (1998) LTD.**  
CONDENSED INTERIM FINANCIAL STATEMENTS  
AS OF JUNE 30, 2001  
(Unaudited)

**DBS SATELLITE SERVICES (1998) LTD.**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2001**  
**(Unaudited)**

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August 13, 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 periods ended June 30, 2001

At your request, we have reviewed the condensed interim balance sheet of DBS Satellite Services (1998) Ltd. (hereafter - the Company) as of June 30, 2001 and the condensed interim statements of operations, changes in the capital deficiency and cash flows, for the six and three month periods 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 these condensed interim financial statements.

During our review, nothing came to our attention that indicated that significant changes should be made in the said interim condensed financial statements in order for them to be considered as having been prepared in accordance with generally accepted accounting principles and with the Securities (Periodic and Immediate Reports) Regulations, 1970.

We draw attention to note 3 to the financial statements, concerning the financial position of the Company, the signing of a financing agreement between the Company and banks, the non-compliance with suspending conditions stipulated by such agreement, and the evaluation of the Company's management regarding compliance with such suspending conditions.

Sincerely yours,

**DBS SATELLITE SERVICES (1998) LTD.**

## CONDENSED BALANCE SHEET

AS OF JUNE 30, 2001

IN JUNE 2001 ADJUSTED NIS

	<u>June 30</u>		<u>December 31,</u>
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>In thousands</u>		
<b>A s s e t s</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	40	8,642	427
Accounts receivable:			
Trade	10,331		4,004
Other	24,970	29,311	43,329
T o t a l current assets	<u>35,341</u>	<u>37,953</u>	<u>47,760</u>
<b>BROADCASTING RIGHTS:</b>			
Cost	274,201	131,499	218,146
Less - utilized rights	57,343		32,774
	<u>216,858</u>	<u>131,499</u>	<u>185,372</u>
<b>FIXED ASSETS:</b>			
Cost	1,199,255	416,924	949,844
Less - accumulated depreciation	135,239	17,116	56,345
	<u>1,064,016</u>	<u>399,808</u>	<u>893,499</u>
<b>ADVANCE ON ACCOUNT OF LICENSE FEES</b>	<u>28,094</u>	<u>30,352</u>	<u>30,104</u>
	<u>1,344,309</u>	<u>599,612</u>	<u>1,156,735</u>
<b>Liabilities, net of capital deficiency</b>			
<b>CURRENT LIABILITIES:</b>			
Bank credit	693,603	58,226	498,056
Accounts payables and accruals:			
Trade	431,120	161,282	483,726
Other	23,031	7,513	36,694
T o t a l current liabilities	<u>1,147,754</u>	<u>227,021</u>	<u>1,018,476</u>
<b>LONG-TERM LIABILITIES -</b>			
shareholders' loans	<u>1,224,190</u>	<u>577,648</u>	<u>772,191</u>
T o t a l liabilities	<u>2,371,944</u>	<u>804,669</u>	<u>1,790,667</u>
<b>CAPITAL DEFICIENCY</b>	<u>(1,027,635)</u>	<u>(205,057)</u>	<u>(633,932)</u>
	<u>1,344,309</u>	<u>599,612</u>	<u>1,156,735</u>

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**David Brodet****Chairman of the Board of  
Directors**

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**Shlomo Liran****Chief Executive Officer**

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**Joshua Harel****VP-Finance**

Date of approval of the financial statements: August 13, 2001

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

**DBS SATELLITE SERVICES (1998) LTD.**  
CONDENSED STATEMENTS OF OPERATIONS  
FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2001  
IN JUNE 2001 ADJUSTED NIS

	6 months ended		3 months ended		Year ended
	June 30		June 30		December 31,
	2001	2000	2001	2000	2000
	(Unaudited)		(Unaudited)		(Audited)
	In thousands				
<b>REVENUES</b>	107,543		62,076		26,574
<b>OPERATING EXPENSES</b>	<u>295,819</u>		<u>147,890</u>		<u>*271,346</u>
<b>GROSS LOSS</b>	188,276		85,814		244,772
<b>SELLING, MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES:</b>					
Selling and marketing	93,816	37,471	59,117	10,651	*167,762
General and administrative	<u>70,165</u>	<u>77,988</u>	<u>34,802</u>	<u>60,540</u>	<u>*114,124</u>
<b>LOSS FROM CURRENT OPERATIONS</b>	352,257	115,459	179,733	71,191	526,658
<b>FINANCING EXPENSES (INCOME), net</b>	<u>41,446</u>	<u>5,524</u>	<u>28,272</u>	<u>(4,967)</u>	<u>23,209</u>
<b>LOSS FOR THE PERIOD</b>	<u>393,703</u>	<u>120,983</u>	<u>208,005</u>	<u>66,224</u>	<u>549,867</u>

\* Reclassified.

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

**DBS SATELLITE SERVICES (1998) LTD.**  
**CONDENSED STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY**  
**FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2001**  
**IN JUNE 2001 ADJUSTED NIS**

	<b>Share capital and premium</b>	<b>Payments on account of shares</b>	<b>Accumulated deficit</b>	<b>Total</b>
	<b>In thousands</b>			
<b>BALANCE AS OF JANUARY 1, 2001</b> (audited)	10		(633,942)	(633,932)
<b>CHANGES DURING THE 6 MONTHS ENDED JUNE 30, 2001</b> (unaudited) - loss			<u>(393,703)</u>	<u>(393,703)</u>
<b>BALANCE AS OF JUNE 30, 2001</b> (unaudited)	<u>10</u>		<u>(1,027,645)</u>	<u>(1,027,635)</u>
<b>BALANCE AS OF JANUARY 1, 2000</b> (audited)	*	1	(84,075)	(84,074)
<b>CHANGES DURING THE 6 MONTHS ENDED JUNE 30, 2000</b> (unaudited) - loss			<u>(120,983)</u>	<u>(120,983)</u>
<b>BALANCE AS OF JUNE 30, 2000</b> (unaudited)	<u>*</u>	<u>1</u>	<u>(205,058)</u>	<u>(205,057)</u>
<b>BALANCE AS OF APRIL 1, 2001</b> (unaudited)	10		(819,640)	(819,630)
<b>CHANGES DURING THE 3 MONTHS ENDED JUNE 30, 2001</b> (unaudited) - loss			<u>(208,005)</u>	<u>(208,005)</u>
<b>BALANCE AS OF JUNE 30, 2001</b> (unaudited)	<u>10</u>		<u>(1,027,645)</u>	<u>(1,027,635)</u>
<b>BALANCE AS OF APRIL 1, 2000</b> (audited)	*	1	(138,834)	(138,833)
<b>CHANGES DURING THE 3 MONTHS ENDED JUNE 30, 2000</b> (unaudited) - loss			<u>(66,224)</u>	<u>(66,224)</u>
<b>BALANCE AS OF JUNE 30, 2000</b> (unaudited)	<u>*</u>	<u>1</u>	<u>(205,058)</u>	<u>(205,057)</u>
<b>BALANCE AS OF JANUARY 1, 2000</b> (audited)	*	1	(84,075)	(84,074)
<b>CHANGES DURING THE YEAR ENDED DECEMBER 31, 2000</b> (audited):				
Issue of share capital	10	(1)		9
Loss			<u>(549,867)</u>	<u>(549,867)</u>
<b>BALANCE AS OF DECEMBER 31, 2000</b> (audited)	<u>10</u>	<u>-,</u>	<u>(633,942)</u>	<u>(633,932)</u>

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

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

**DBS SATELLITE SERVICES (1998) LTD.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2001**  
**IN JUNE 2001 ADJUSTED NIS**

	6 months ended		3 months ended		Year ended
	June 30		June 30		December 31,
	2001	2000	2001	2000	2000
	(Unaudited)		(Unaudited)		(Audited)
	In thousands				
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Loss for the period	(393,703)	(120,983)	(208,005)	(66,224)	(549,867)
Adjustments required to reflect the cash flows from operating activities **	23,327	37,536	172,245	(4,509)	401,150
Net cash used in operating activities	(370,376)	(83,447)	(35,760)	(70,733)	(148,717)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of fixed assets	(211,376)	(274,693)	(107,708)	(158,383)	(792,668)
Purchase of broadcasting rights	(71,102)	(66,790)	(33,302)	(47,860)	*(126,136)
Net cash used in investing activities	(282,478)	(341,483)	(141,010)	(206,243)	(918,804)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Receipt of long-term loans from shareholders	456,920	441,903	59,002	216,150	636,447
Short-term bank credit - net	195,547	(53,687)	117,808	16,695	386,145
Net cash provided by financing activities	652,467	388,216	176,810	232,845	1,022,592
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(387)	(36,714)	40	(44,131)	(44,929)
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	427	45,356		52,773	45,356
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	40	8,642	40	8,642	427

\* Reclassified.

**DBS SATELLITE SERVICES (1998) LTD.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2001**  
**IN JUNE 2001 ADJUSTED NIS**

	<u>6 months ended</u> <u>June 30</u>		<u>3 months ended</u> <u>June 30</u>		<u>Year ended</u> <u>December 31,</u>
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2000</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>In thousands</u>				
<b>** Adjustments required to reflect the cash flows from operating activities:</b>					
Income and expenses not involving cash flows:					
Depreciation and amortization	105,473	15,073	50,835	10,743	87,410
Appreciation (erosion) of principal of long-term loans	(4,921)		(1,608)	168	
Liability for employee rights upon retirement		55		55	
	<u>100,552</u>	<u>15,128</u>	<u>49,227</u>	<u>10,966</u>	<u>87,410</u>
Changes in operating asset and liability items:					
Decrease (increase) in accounts receivable	12,032	(21,198)	(4,789)	(11,272)	(39,299)
Increase (decrease) in trade payables	(75,594)	47,780	120,894	36,177	*327,977
Increase (decrease) in other payables	(13,663)	(4,174)	6,913	(40,380)	25,062
	<u>(77,225)</u>	<u>22,408</u>	<u>123,018</u>	<u>(15,475)</u>	<u>313,740</u>
	<u>23,327</u>	<u>37,536</u>	<u>172,245</u>	<u>(4,509)</u>	<u>401,150</u>
<b>Supplementary information on investing activities not involving cash flows:</b>					
Purchase of fixed assets on suppliers' credit	<u>96,290</u>		<u>96,290</u>		<u>58,255</u>
Purchase of broadcasting rights on suppliers' credit	<u>31,597</u>		<u>31,597</u>		<u>*46,644</u>

\* Reclassified.

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

## **DBS SATELLITE SERVICES (1998) LTD.**

### **NOTES TO CONDENSED FINANCIAL STATEMENTS**

**AS OF JUNE 30, 2001**

**(Unaudited)**

- 1) The condensed interim financial statements as of June 30, 2001 and for the six and three month periods 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 (Periodic and immediate reports) Regulations, 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.

- 2) **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 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.

- 3) **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 550 million, and the loss for the six months ended June 30, 2001 amounted to approximately adjusted NIS 394 million. As a result of these losses, the working capital deficiency increased to approximately adjusted NIS 1,112 million (including approximately adjusted NIS 694 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 and certain banks signed a memorandum setting out terms, which constituted an indication of the terms and conditions which were to be included in a financing agreement to be concluded between them.

On May 23, 2001, the said financing agreement was signed and it contained, inter alia, prerequisite conditions for utilization of the credit lines, including an undertaking by the Company to meet certain specified cumulative milestones. The financing agreement provides, inter alia, that if the Company would not fulfill all of the suspending conditions set out in the agreement, by June 30, 2001, the agreement would be null and void. The target date for the fulfillment of the suspending conditions was extended until July 31, 2001. As of the date of the approval of these financial statements, not all of the said suspending conditions had yet been fulfilled. Concurrently, the Company and the banks are continuing to carry out the final acts necessary to achieve the fulfillment of the said conditions. It is the opinion of the Company's management, that the fulfillment of the suspending conditions will be achieved shortly, and that the present delay will not have a negative effect on the terms of the financing agreement.

**DBS SATELLITE SERVICES (1998) LTD.**

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

AS OF JUNE 30, 2000

(Unaudited)

- 4) On May 10, 2001, a lawsuit was filed against the Company alleging that the Company is misleading its customers in its advertisements regarding the possibility of purchasing only certain channels, and also as concerns the quantity of channels being offered. The lawsuit further alleges that the Company obliged its customers to purchase a package of channels of maximum size, even though they did not choose to purchase such a package.

The plaintiff filed the lawsuit as representative of the Company's customers, and also petitioned to have the claim certified as a class action under the Consumer Protection Law.

The damage claimed to have been sustained by the plaintiff personally, is negligible, and the amount stated as the cumulative damage of all the members of the represented group, comes to NIS 177 million.

In the opinion of the Company's legal counsel, the chances of its successfully defending against the claim, as a class action, are good.

- 5) Termination of the agreement with Baran Raviv Establishment and Enterprises Ltd. (hereafter - Baran)

On July 17, 2001, the Company entered into an agreement with Baran, providing for the termination of the contract, previously signed between them, for the management of the installation and maintenance of end-user equipment on the premises of the subscribers. In accordance with the agreement, the above contract between the companies will terminate on September 19, 2001.

Upon the termination of the said contract, the Company intends to establish its own organization to handle installations and to provide maintenance services.

The cost, to the Company, of the contract with Baran, in 2000, came to NIS 345 million.

- 6) 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>
Six months ended June 30:		
2001	3.1%	1.1%
2000	(1.7%)	0.4%
Three months ended June 30:		
2001	(0.6%)	1.6%
2000	1.4%	1.6%
Year ended December 31, 2000	(2.7%)	0%