

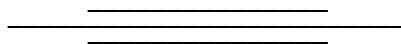
**DBS SATELLITE SERVICES (1998) LTD.**  
CONDENSED INTERIM FINANCIAL STATEMENTS  
(Unaudited)

AS OF SEPTEMBER 30, 2001

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

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November 19, 2001

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

Re. Review of unaudited condensed interim financial statements for  
the periods ended September 30, 2001

At your request, we have reviewed the condensed interim balance sheet of DBS Satellite Services (1998) Ltd. (hereafter – the Company) as of September 30, 2001 and the condensed statements of operations, changes in the capital deficiency and cash flows, for the nine 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 meetings of shareholders, the board of directors and its committees, and making inquiries of 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 certain terms specified in the agreement as well as the continued execution of the financing agreement and the receipt of additional loans from shareholders, which are the conditions upon which the activity of the Company depends.

Kesselman & Kesselman  
Certified Public Accountants (Isr.)

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

CONDENSED BALANCE SHEET

AS OF SEPTEMBER 30, 2001

IN SEPTEMBER 2001 ADJUSTED NIS

	September 30		December 31,
	2001	2000	2000
	(Unaudited)	(Unaudited)	(Audited)
	In thousands		
<b>A s s e t s</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		621	430
Accounts receivable:			
Trade	14,183	289	4,040
Other	13,659	53,295	43,713
	27,842	54,205	48,183
<b>T o t a l c u r r e n t a s s e t s</b>			
<b>BROADCASTING RIGHTS:</b>			
Cost	306,185	162,303	220,079
L e s s - utilized rights	78,163	7,380	33,064
	228,022	154,923	187,015
<b>FIXED ASSETS:</b>			
Cost	1,333,513	623,024	958,260
L e s s - accumulated depreciation	188,845	34,894	56,844
	1,144,668	588,130	901,416
<b>ADVANCE ON ACCOUNT OF LICENSE FEES</b>			
	27,367	30,790	30,371
	1,427,899	828,048	1,166,985
<b>Liabilities, net of capital deficiency</b>			
<b>CURRENT LIABILITIES:</b>			
Bank credit	767,621	250,222	502,470
Accounts payable and accruals:			
Trade	407,828	319,641	488,012
Other	28,685	19,999	37,019
	1,204,134	589,862	1,027,501
<b>LONG-TERM LIABILITIES -</b>			
Shareholders' loans	1,466,069	637,126	779,033
	2,670,203	1,226,988	1,806,534
<b>CAPITAL DEFICIENCY</b>			
	(1,242,304)	(398,940)	(639,549)
	1,427,899	828,048	1,166,985

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

**Shlomo Liran**  
Chief Executive Officer

**Joshua Harel**  
VP - Finance

Date of approval of the financial statements: November 19, 2001

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

**DBS SATELLITE SERVICES (1998) LTD.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
**FOR THE 9 AND 3 MONTH PERIODS ENDED SEPTEMBER 30, 2001**  
**IN SEPTEMBER 2001 ADJUSTED NIS**

	<u>9 months ended September 30</u>		<u>3 months ended September 30</u>		<u>Year ended 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>
	<b>In thousands</b>				
<b>REVENUES</b>	192,948	4,077	84,452	4,077	26,810
<b>OPERATING EXPENSES</b>	492,534	*130,098	194,094	*101,812	*273,750
<b>GROSS LOSS</b>	299,586	126,021	109,642	97,735	246,940
<b>SELLING, MARKETING GENERAL AND ADMINISTRATIVE EXPENSES:</b>					
Selling and Marketing	142,568	*101,096	47,921	*63,294	*169,248
General and administrative	101,222	*74,464	30,435	*24,072	*115,135
<b>LOSS FROM CURRENT OPERATIONS</b>	543,376	301,581	187,998	185,101	531,323
<b>FINANCING EXPENSES, net</b>	59,379	12,550	17,565	6,984	23,417
<b>LOSS FOR PERIOD</b>	<u>602,755</u>	<u>314,131</u>	<u>205,563</u>	<u>192,085</u>	<u>554,740</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 9 AND 3 MONTH PERIODS ENDED SEPTEMBER 30, 2001  
IN SEPTEMBER 2001 ADJUSTED NIS

	<u>Share capital and premium</u>	<u>Payments on account of shares</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<u>I n</u>	<u>t h o</u>	<u>u s a n d</u>	<u>s</u>
<b>BALANCE AS OF JANUARY 1, 2001</b> (audited)	10		(639,559)	(639,549)
<b>CHANGES DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2001</b> (unaudited) -				
Loss			(602,755)	(602,755)
<b>BALANCE AS OF SEPTEMBER 30, 2001</b> (unaudited)	<u>10</u>		<u>(1,242,314)</u>	<u>(1,242,304)</u>
<b>BALANCE AS OF JANUARY 1, 2000</b> (audited)	*	1	(84,819)	(84,818)
<b>CHANGES DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2000</b> (unaudited):				
Issue of share capital	10	(1)		9
Loss			(314,131)	(314,131)
<b>BALANCE AS OF SEPTEMBER 30, 1999</b> (unaudited)	<u>10</u>	<u>-,-</u>	<u>(398,950)</u>	<u>(398,940)</u>
<b>BALANCE AS OF JULY 1, 2001</b> (unaudited)	10		(1,036,751)	(1,036,741)
<b>CHANGES DURING THE THREE MONTHS ENDED SEPTEMBER 30, 2001</b> (unaudited):				
Loss			(205,563)	(205,563)
<b>BALANCE AS OF SEPTEMBER 30, 2001</b> (unaudited)	<u>10</u>		<u>(1,242,314)</u>	<u>(1,242,304)</u>
<b>BALANCE AS OF JULY 1, 2000</b> (unaudited)	*	1	(206,865)	(206,864)
<b>CHANGES DURING THE THREE MONTHS ENDED SEPTEMBER 30, 2000</b> (unaudited):				
Issue of share capital	10	(1)		9
Loss			(192,085)	(192,085)
<b>BALANCE AS OF SEPTEMBER 30, 2000</b> (unaudited)	<u>10</u>	<u>-,-</u>	<u>(398,950)</u>	<u>(398,940)</u>
<b>BALANCE AS OF JANUARY 1, 2000</b> (audited)	*	1	(84,819)	(84,818)
<b>CHANGES DURING 2000</b> (audited):				
Issue of share capital	10	(1)		9
Loss			(554,740)	(554,740)
<b>BALANCE AS OF DECEMBER 31, 2000</b> (audited)	<u>10</u>	<u>-,-</u>	<u>(639,559)</u>	<u>(639,549)</u>

\* 4 ordinary shares, each having a par value of NIS 1.

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

**DBS SATELLITE SERVICES (1998) LTD.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**FOR THE 9 AND 3 MONTH PERIODS ENDED SEPTEMBER 30, 2001**  
**IN SEPTEMBER 2001 ADJUSTED NIS**

	<u>9 months ended</u> <u>September 30</u>		<u>3 months ended</u> <u>September 30</u>		<u>Year ended</u> <u>December 31,</u> <u>2000</u>
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>(Audited)</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		
	<u>In thousands</u>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Loss for the period	(602,755)	(314,131)	(205,563)	(192,085)	(554,740)
Adjustments required to reflect the cash flows from operating activities (a)	<u>100,253</u>	<u>169,128</u>	<u>76,719</u>	<u>131,267</u>	<u>404,704</u>
Net cash used in operating activities	<u>(502,502)</u>	<u>(145,003)</u>	<u>(128,844)</u>	<u>(60,818)</u>	<u>(150,036)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of fixed assets	(347,104)	(442,541)	(133,855)	(165,419)	(799,692)
Purchase of broadcasting rights	<u>(106,486)</u>	<u>(95,108)</u>	<u>(34,754)</u>	<u>(27,728)</u>	<u>*(127,253)</u>
Net cash used in investing activities	<u>(453,590)</u>	<u>(537,649)</u>	<u>(168,609)</u>	<u>(193,147)</u>	<u>(926,945)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Receipt of long-term loans from shareholders	690,511	500,185	229,542	54,374	642,087
Issue of share capital		9		9	
Short-term bank credit – net	<u>265,151</u>	<u>137,322</u>	<u>67,871</u>	<u>191,481</u>	<u>389,567</u>
Net cash provided by financing activities	<u>955,662</u>	<u>637,516</u>	<u>297,413</u>	<u>245,864</u>	<u>1,031,654</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(430)	(45,136)	(40)	(8,101)	(45,327)
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>430</u>	<u>45,757</u>	<u>40</u>	<u>8,722</u>	<u>45,757</u>
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u><u>-,-</u></u>	<u><u>621</u></u>	<u><u>-,-</u></u>	<u><u>621</u></u>	<u><u>430</u></u>
<b>(a) Adjustments required to reflect the cash flows from operating activities:</b>					
Income and expenses not involving cash flows:					
Depreciation and amortization	180,104	42,337	73,696	27,132	88,184
Appreciation (erosion) of principal of long- term loans	<u>(3,475)</u>		<u>1,490</u>		
	<u>176,629</u>	<u>42,337</u>	<u>75,186</u>	<u>27,132</u>	<u>88,184</u>
Changes in operating asset and liability items:					
Decrease (increase) in accounts receivable	19,911	(45,633)	7,772	(24,246)	(39,647)
Increase (decrease) in trade payables	(87,953)	164,161	(11,689)	115,958	*330,882
Increase (decrease) in other payables	<u>(8,334)</u>	<u>8,263</u>	<u>5,450</u>	<u>12,423</u>	<u>25,285</u>
	<u>(76,376)</u>	<u>126,791</u>	<u>1,533</u>	<u>104,135</u>	<u>316,520</u>
	<u>100,253</u>	<u>169,128</u>	<u>76,719</u>	<u>131,267</u>	<u>404,704</u>
<b>(b) Supplementary information on investing activities not involving cash flows:</b>					
Purchase of fixed assets on suppliers' credit	<u>86,920</u>		<u>86,920</u>		<u>58,771</u>
Purchase of broadcasting rights on suppliers' credit	<u>26,677</u>		<u>26,677</u>		<u>*47,057</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 SEPTEMBER 30, 2001

(Unaudited)

1. The condensed interim financial statements as of September 30, 2001 and for the nine and three months 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 under 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**

- a) The Company expects significant losses and negative cash flows from current operations during the first years of activity. The loss for 2000 amounted to approximately adjusted NIS 555 million, and the loss for the nine months ended September 30, 2001 amounted to approximately adjusted NIS 603 million. As a result of these losses, the working capital deficiency increased to approximately adjusted NIS 1,176 million (including approximately adjusted NIS 768 million in short-term bank credit).
- b) On August 1, 2000, a memorandum of understanding was signed between the Company and certain banks, that indicates the terms and conditions that are to be included in a financing agreement between the company and the banks.  
On May 23, 2001, the financing agreement between the Company and the banks was signed (hereafter – the financing agreement). The financing agreement specifies, inter alia, prerequisite conditions for the utilization of credit lines within the facility, including undertakings by the Company to meet certain suspending conditions as well as specified cumulative milestones and financial stipulations (hereafter - the terms).  
As of the date of the approval of these financial statements, not all of the said terms had been fulfilled. The company and the banks are continuing to discuss the steps necessary to achieve the fulfillment of the terms.  
As of the date of the approval of these financial statements, the banks continue to put credit at the disposal of the Company, in accordance with the financing agreement.

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

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

AS OF SEPTEMBER 30, 2001

(Unaudited)

**3. The Company's financial position (continued)**

c) The company's activities are financed by shareholders' loans and credit from banks. To date of the approval of these financial statements, certain shareholders ceased to grant the company any additional loans. The receipt of loans from a main shareholder is, inter alia, subject to the approval of the ministerial committee for privatization.

The activity of the Company is conditional upon the continuation of the finance agreement and upon receiving additional loans from shareholders.

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 members of the represented group comes to NIS 177 million.

In the opinion of the Company's legal counsel, there is a good chance that the petition to have the claim certified as a class action will not be accepted.

**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 installation and maintenance of end-user equipment on the premises of subscribers. In accordance with the agreement, the above contract between the companies terminated on September 19, 2001.

Upon the termination of the said contract, the Company established its own organization to handle installation of end-user equipment on the premises of subscribers and to provide ongoing maintenance services.

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

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

AS OF SEPTEMBER 30, 2001

(Unaudited)

6. In October 2001, the Israel Accounting Standards Board (IASB) issued Israel Accounting Standard No. 12 - Discontinuance of Adjusting Financial Statements for Inflation. In light of the recent decrease in inflation rates, Standard 12 provides for the discontinuance of inflation-adjusted financial statements and the return to the nominal-historical financial reporting as is generally practiced in countries with low inflation rates. The date for the transition to nominal-historical reporting will be December 31, 2002.  
The implementation of Standard No. 12 will mainly effect the financing expenses item starting from January 1, 2003.  
In accordance with the provisions of the Standard, the inflation-adjusted amounts, which are included in the financial statements of the reporting year ending on the date of the transition, will be the base for the nominal-historical financial reporting in the following periods.
7. Below are the changes that 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>
9 months ended September 30:		
2001	7.8%	2.021%
2000	(3.1%)	(0.47%)
3 months ended September 30:		
2001	4.56%	0.9%
2000	(1.5%)	(0.84%)
Year ended December 31, 2000:	(2.7%)	0%