

DBS SATELLITE SERVICES (1998) LTD.

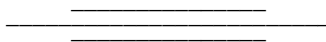
2002 ANNUAL REPORT

DBS SATELLITE SERVICES (1998) LTD.

2002 ANNUAL REPORT

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AUDITORS' REPORT

To the shareholders of

DBS SATELLITE SERVICES (1998) LTD.

We have audited the balance sheets of DBS Satellite Services (1998) Ltd. (hereafter - the Company) as of December 31, 2002 and 2001 and the related statements of operations, changes in capital deficiency and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurances about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001 and the results of its operations, the changes in its capital deficiency and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in Israel. Furthermore, in our opinion, the financial statements referred to above are prepared in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993.

As explained in note 1b, the financial statements referred to above are presented in values adjusted for the changes in the general purchasing power of Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

Without qualifying our opinion, we draw attention to note 1a(2) regarding the financial position of the Company and the financing agreements with banks and with the Company's shareholders. As explained in the abovementioned note, the Company's activity depends on the continued execution of the financing agreements, including the formulation of an addendum to the agreements, as described in the said note, and on the receipt of additional loans from shareholders.

Tel Aviv
March 3, 2003

DBS SATELLITE SERVICES (1998) LTD.
BALANCE SHEETS
IN ADJUSTED NIS

| | | December 31 | |
|---|-----------|---------------------|------------------|
| | | 2002 | 2001 |
| | | <u>In thousands</u> | |
| | Note | | |
| A s s e t s | | | |
| CURRENT ASSETS: | 10 | | |
| Cash and cash equivalents | 9 | 4,522 | 22 |
| Accounts receivable: | | | |
| Trade | 11a | 106,266 | 60,667 |
| Other | | 4,845 | 31,769 |
| T o t a l current assets | | <u>115,633</u> | <u>92,458</u> |
| BROADCASTING RIGHTS: | 1d | | |
| Cost | 11e | 251,891 | 305,186 |
| L e s s - utilized rights | | 112,342 | 68,476 |
| | | <u>139,549</u> | <u>236,710</u> |
| FIXED ASSETS: | 1e;2 | | |
| Cost | | 1,950,841 | 1,591,097 |
| L e s s - accumulated depreciation | | 613,158 | 273,328 |
| | | <u>1,337,683</u> | <u>1,317,769</u> |
| LICENSE FEES - ADVANCE ON ACCOUNT OF ROYALTIES | 3 | 6,484 | 27,893 |
| | | <u>1,599,349</u> | <u>1,674,830</u> |
| Liabilities, net of capital deficiency | | | |
| CURRENT LIABILITIES: | 10 | | |
| Accounts payable and accruals: | 9 | | |
| Trade | 11c | 538,252 | 553,294 |
| Other | | 78,865 | 31,924 |
| | | 617,117 | 585,218 |
| Bank credit | 1a(2);11b | 1,125,584 | 939,826 |
| T o t a l current liabilities | | <u>1,742,701</u> | <u>1,525,044</u> |
| LONG-TERM LIABILITIES: | 9 | | |
| Liability for employee rights upon retirement – net | 5 | 2,840 | 1,226 |
| Customer deposits – net | 1g | 42,060 | 20,491 |
| Other liability, net of current maturity | 11d | 14,336 | 28,870 |
| T o t a l long-term liabilities | | 59,236 | 50,587 |
| SHAREHOLDERS' LOANS | 4 | 2,091,371 | 1,670,418 |
| COMMITMENTS AND CONTINGENT LIABILITIES | 6 | | |
| T o t a l liabilities | | <u>3,893,308</u> | <u>3,246,049</u> |
| CAPITAL DEFICIENCY | 7 | (2,293,959) | (1,571,219) |
| | | <u>1,599,349</u> | <u>1,674,830</u> |

Date of approval of the financial statements: March 3, 2003.

Avi Gabay
Member of the
Board of Directors

Shlomo Liran
Chief Executive Officer

David Brodet
Chairman of the
Board of Directors

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

DBS SATELLITE SERVICES (1998) LTD.
STATEMENTS OF OPERATIONS
IN ADJUSTED NIS

| | <u>Note</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--|-------------|------------------------------|-------------|-------------|
| | | <u>I n t h o u s a n d s</u> | | |
| REVENUES | | 672,577 | 325,572 | 28,382 |
| OPERATING EXPENSES | 11 f | 1,089,741 | *767,162 | 280,022 |
| GROSS LOSS | | 417,164 | 441,590 | 251,640 |
| SELLING AND MARKETING EXPENSES | 11 g | 119,357 | *203,244 | 177,048 |
| GENERAL AND ADMINISTRATIVE EXPENSES | 11 h | 117,031 | *148,266 | 133,804 |
| LOSS FROM ORDINARY OPERATIONS | | 653,552 | 793,100 | 562,492 |
| FINANCIAL EXPENSES, net | 11i | 48,084 | 101,054 | 24,789 |
| OTHER EXPENSES | 2c | 21,113 | | |
| LOSS FOR THE YEAR | | 722,749 | 894,154 | 587,281 |

* Reclassified.

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

DBS SATELLITE SERVICES (1998) LTD.
STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY
IN ADJUSTED NIS

| | Share capital | Receipts on account of shares | Accumulated deficit | Total |
|-------------------------------------|--------------------------|--|--------------------------------|--------------------|
| | In thousands | | | |
| BALANCE AT JANUARY 1, 2000 | * | 1 | (89,795) | (89,794) |
| CHANGES DURING 2000: | | | | |
| Issue of share capital | 11 | (1) | | 10 |
| Loss | | | (587,281) | (587,281) |
| BALANCE AT DECEMBER 31, 2000 | 11 | | (677,076) | (677,065) |
| CHANGES DURING 2001 - loss | | | (894,154) | (894,154) |
| BALANCE AT DECEMBER 31, 2001 | 11 | | (1,571,230) | (1,571,219) |
| CHANGES DURING 2002: | | | | |
| Issue of share capital | 9 | | | 9 |
| Loss | | | (722,749) | (722,749) |
| BALANCE AT DECEMBER 31, 2002 | <u>20</u> | | <u>(2,293,979)</u> | <u>(2,293,959)</u> |

* Represents an amount of less than adjusted NIS 1,000.

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

DBS SATELLITE SERVICES (1998) LTD.

STATEMENTS OF CASH FLOWS

IN ADJUSTED NIS

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--|------------------------------|-----------------------------|-----------------------------|
| | <u>I n t h o u s a n d s</u> | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Loss for the year | (722,749) | (894,154) | (587,281) |
| Adjustments required to reflect the cash flows from operating activities (a) | <u>652,549</u> | <u>*284,371</u> | <u>293,556</u> |
| Net cash used in operating activities | <u>(70,200)</u> | <u>(609,783)</u> | <u>(293,725)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES, see (b) below: | | | |
| Payments on account of purchase of fixed assets, see (b) below | (481,865) | (543,680) | (710,476) |
| Payments on account of purchase of broadcasting Rights | (49,783) | *(99,441) | (134,722) |
| Proceeds on sale of fixed assets | <u>10,850</u> | <u> </u> | <u> </u> |
| Net cash used in investing activities | <u>(520,798)</u> | <u>(643,121)</u> | <u>(845,198)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Receipt of long-term loans from shareholders | 409,740 | 844,590 | 678,522 |
| Credit from banks – net | <u>185,758</u> | <u>407,880</u> | <u>412,416</u> |
| Net cash provided by financing activities | <u>595,498</u> | <u>1,252,470</u> | <u>1,090,938</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 4,500 | (434) | (47,985) |
| BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>22</u> | <u>456</u> | <u>48,441</u> |
| BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR | <u><u>4,522</u></u> | <u><u>22</u></u> | <u><u>456</u></u> |

* Reclassified.

DBS SATELLITE SERVICES (1998) LTD.
STATEMENTS OF CASH FLOWS
IN ADJUSTED NIS

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--|------------------------------|-----------------|----------------|
| | <u>I n t h o u s a n d s</u> | | |
| (a) Adjustments required to reflect the cash flows from operating activities: | | | |
| Expenses not involving cash flows: | | | |
| Depreciation and amortization | 348,441 | 217,410 | 58,355 |
| Broadcasting rights utilized | 149,386 | 79,746 | 35,004 |
| Impairment provision in respect installation equipment | 21,048 | | |
| Liability for employee rights upon retirement - net | 1,614 | 1,226 | |
| Linkage differences on other long-term liability | 1,533 | | |
| Linkage differences and interest on principal of shareholders' loans | 11,213 | 1,096 | 1,239 |
| Other | 990 | | |
| | <u>534,225</u> | <u>299,478</u> | <u>94,598</u> |
| Changes in operating asset and liability items: | | | |
| Decrease (increase) in accounts receivable: | | | |
| Trade | (35,836) | (56,390) | (4,277) |
| Other | 26,933 | 14,508 | 37,687 |
| Increase (decrease) in accounts payables and accruals: | | | |
| Trade, see (b) below | 59,567 | *13,551 | 214,153 |
| Customer deposits - net | 29,873 | 27,042 | 227 |
| Other | 37,787 | (13,818) | 26,542 |
| | <u>118,324</u> | <u>(15,107)</u> | <u>198,958</u> |
| | <u>652,549</u> | <u>284,371</u> | <u>293,556</u> |
| (b) Supplementary information on investing activities not involving cash flows: | | | |
| (1) Increase (decrease) in suppliers' credit for purchase of fixed assets | <u>(93,118)</u> | <u>32,945</u> | <u>145,479</u> |
| Increase in suppliers' credit for purchase of broadcasting rights | <u>2,442</u> | <u>*19,029</u> | <u>32,302</u> |

- (2) In the second half of 2002, the Company sold to its customers digital satellite decoders in installments, as part of a one-time marketing campaign. The payments received until December 31, 2002 were included under investing activities for 2002. The remaining balance, approximately adjusted NIS 10 million, will be included in 2003.

* Reclassified.

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

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, applied on a consistent basis, are as follows:

a. General:

1) 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 day of its receipt and can be extended for an additional period of six years on certain conditions. In June 2002, the License was extended by five years.

The Company paid an advance on account of license fees (royalties) in the amount of approximately adjusted NIS 33 million, and presented a bank guarantee in the same amount in favor 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 granted it under the Telecommunications Law.

2) The Company's financial position

a) Since the commencement of its activities, the Company has incurred significant losses and negative cash flows. The loss for 2002 amounts to approximately adjusted NIS 723 million and the negative cash flow from ordinary operations aggregated approximately adjusted NIS 70 million. As a result of these losses, the Company's capital deficiency and working capital deficiency as of December 31, 2002 amounted to approximately adjusted NIS 2,294 million and adjusted NIS 1,627 million, respectively. The working capital deficiency includes approximately adjusted NIS 1,126 million in credit from banks (see also (b) below).

b) On May 23, 2001, the Company signed a financing agreement (hereafter - the financing agreement) with certain banks (hereafter - the Banks). The financing agreement includes, *inter alia*, undertakings by the Company to meet certain suspending conditions as well as specified cumulative milestones and financial stipulations (hereafter - the terms).

A financial review performed by the Banks at the beginning of 2002 determined that the additional amount of finance required for the Company's activities is significantly higher than the financing requirements defined in the agreement.

On December 30, 2002, the Company, its shareholders and the Banks signed an agreement regarding the expansion of the credit facility provided by the Banks (hereafter - the interim facility), which is to be carried out in parallel with additional investments by the shareholders, in an amount not less than 150% of the amount infused by the Banks. Receipt of the finance under the interim facility is, *inter alia*, conditional upon the Company's meeting certain financial and operating conditions, as stipulated in the said agreement.

DBS SATELLITE SERVICES (1998) LTD.
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

To date of approval of these financial statements, the shareholders and the Banks have transferred the Company approximately U.S. \$ 30 million and U.S. \$ 20 million, respectively, on account of the interim facility.

To date of approval of these financial statements, not all the terms stipulated in the financing agreement and the interim facility have been fulfilled. Accordingly, the credit from the Banks was included under current liabilities.

In addition, discussions have been held between the parties regarding the expansion of the interim facility (hereafter - the addendum to the financing agreement). The principal shareholders of the Company have notified the Banks of their intention to invest, in parallel with the Banks, their proportionate share in the addendum to the financing agreement. To date of approval of these financial statements, the Banks have not yet passed a decision regarding the addendum to the financing agreement. The interim facility stipulates that, in the event that by March 31, 2003: (1) The Banks receive no proof that the overall financing requirements of the Company do not exceed the amount of the interim facility, with the addition of the addendum to the financing agreement (including the proportionate share of the shareholders) and (2) An addendum to the financing agreement is not signed by the Company, its shareholders and the Banks; the Banks would be entitled to take, at their sole discretion, the action necessary in order to collect all of the amounts due to them and to act on their rights under the financing agreement in the event of a breach, as stipulated in this agreement.

- c) The receipt of additional loans from a principal shareholder is conditional, inter alia, upon the approval of the Ministerial Committee for Privatization (hereafter - the Committee). The Committee has allowed the shareholder to increase his investment up to the sum of the multiplication of the percentage of his shareholding of the Company's share capital by U.S. dollar 480 million. In January 14, 2003, the Committee has given its approval for the shareholder to invest, beyond the abovementioned amount, an additional \$ 60 million in the Company. In the opinion of the Company's management, the total amount of investment approved by the Committee covers the principal shareholder's proportionate share in the interim facility as well as his proportionate share under the addendum to the financing agreement.
- d) The Company's activity depends on the continued execution of the financing agreement and the interim facility, on the signing of the addendum to the financing agreement, as described in (b) above, and on the receipt of additional loans from shareholders.

In the opinion of the Company's management, there are good chances that the discussions between the Company, the shareholders and the Banks will result in the signing of the addendum to the financing agreement and an arrangement for the financing resources required for the coming year.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

3) Definitions

Interested parties - as defined in the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993.

4) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

b. Adjusted financial statements:

- 1) The financial statements have been prepared on the basis of historical cost adjusted for the changes in the general purchasing power of Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel (hereafter - the Israeli Institute). All figures in the financial statements are presented in adjusted new Israeli shekels (NIS) which have a uniform purchasing power (December 2002 adjusted NIS) - based upon the changes in the consumer price index (hereafter - the CPI); see also note 9b).

The adjustment of the financial statements is based on the accounts of the Company, maintained in nominal NIS. Condensed nominal Israeli currency data of the Company, on the basis of which its adjusted financial statements were prepared, are presented in note 14.

The components of the statements of operations were, for the most part, adjusted as follows: the components relating to transactions carried out during the year (revenues, purchases, labor costs, etc.) were adjusted on the basis of the index for the month in which the transaction was carried out, while those relating to non-monetary balance sheet items (mainly depreciation and amortization) were adjusted on the same basis as the related balance sheet item. The financing component represents financial income and expenses in real terms and the erosion of balances of monetary items during the year.

- 2) The adjusted amounts of non-monetary assets do not necessarily represent realization value or current economic value, but only the original historical values, adjusted for the changes in the general purchasing power of Israeli currency. In these financial statements, the term "cost" signifies cost in adjusted Israeli currency.

c. Cash equivalents

The Company considers all highly liquid investments, which include short-term bank deposits (up to three months from the date of deposit) that are not restricted as to withdrawal or use, to be cash equivalents.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

d. Broadcasting rights

The rights are presented at cost.

The cost of acquired rights for the screening of movies and television programs includes commitments to the suppliers of the rights, with the addition of direct costs incurred in adapting such movies and programs for screening in Israel. The broadcasting rights are partially depreciated on the basis of actual screenings (the remaining balance to the end of the agreement is fully depreciated at the end of the agreement period) and partially according to the term of the rights agreement.

Costs relating to programs produced by the Company which, in the opinion of the Company, can be sold or broadcasted numerous times, are carried to broadcasting rights and depreciated on the basis of their estimated useful life.

e. Fixed assets

- 1) Fixed assets are stated at cost.
- 2) The assets are depreciated by the straight-line method, based on their estimated useful life.

Annual rates of depreciation are as follows:

| | <u>%</u> |
|---|----------|
| Broadcasting and receiving equipment | 15 |
| Capitalized installation costs, see also (3) below | 10 |
| Digital satellite decoders | 25 |
| Office furniture and equipment | 7-15 |
| Computers | 33 |

Leasehold improvements are amortized by the straight-line method over the lease period or the estimated life of the improvements, whichever is shorter.

- 3) The Company capitalizes costs of installation of broadcasting and receiving equipment to fixed assets. The costs of installation in apartments are amortized based on the average term of engagement with customers. The costs of installation on buildings are amortized based on the estimated useful life of the installation costs.

In the first quarter of 2003, the Company completed a reassessment of the average term of engagement with subscribers. Based on this reassessment, market conditions and experience, commencing 2003, costs relating to installation in apartments will be amortized at the rate of 17%.

In addition, in the first quarter of 2003 the Company has completed an engineering review of the estimated useful life of costs relating to installation on buildings. Based on this review, commencing 2003, costs of installation as above will be amortized at the rate of 6.7%.

The abovementioned changes will increase, as from 2003, the annual depreciation expense by approximately adjusted NIS 34 million.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

f. License fees - advance on account of royalties

The license fees, which reflect royalty amounts in advance as stipulated in the terms of the License (see note 1a(1)), are depreciated from the beginning the commercial utilization of the License, in accordance with the Company's royalty commitments, see note 3, over a period not exceeding ten years.

g. Revenue recognition:

- 1) Revenues from supply of content services are recognized as services are performed.
- 2) The Company leases digital satellite decoders to its customers, on an operational lease basis. Revenues from the lease fees are recognized ratably over the lease period.
- 3) The Company receives deposits from its subscribers for the digital satellite decoders, in an amount that does not exceed the cost of the decoders. Revenues from the depreciation of the deposits are carried to income over 5 or 10 years, based on the terms of the contract with the subscriber.

h. Allowance for doubtful accounts

The allowance is determined at progressively increasing percentages of the debt according to the amount of time the debt has been outstanding.

i. Recently issued pronouncements:

- 1) In February 2003, Accounting Standard No. 15 of the Israeli Accounting Standards Board (hereafter - the IASB) - "Impairment of Assets", became effective. This standard - based on International Accounting standard No. 36 - requires a periodic review, at each balance sheet date, to evaluate the need for a provision for the impairment of the Company's non-monetary assets - mainly fixed assets and identifiable intangibles, including goodwill, as well as investments in associated companies. The Standard is applicable to financial statements for periods commencing January 1, 2003 and thereafter. According to the Standard, if any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of one or more of the above assets, the Company must evaluate whether the carrying value of the investment in the asset is recoverable from the cash flows anticipated from that asset, and, if necessary, record an impairment provision up to the amount needed to adjust the carrying amount to the recoverable amount. The impairment loss is carried directly to income.

In the opinion of the company, the new Standard will not have a material effect on its operating results, financial position and cash flows.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

- 2) In October 2001, the IASB issued Israel Accounting Standard No. 12 – “Discontinuance of Adjusting Financial Statements for inflation”, which provided for the discontinuance of adjusting financial statements for the effects of inflation, as of January 1, 2003. In December 2002, Accounting Standard No. 17 was issued that postponed the date from which Accounting Standard No. 12 is to be applied until January 1, 2004. The inflation-adjusted amounts as of December 31, 2003 will be the base for the nominal-historical financial reporting in the following periods.

The implementation of Standard No. 12 will mainly affect the financing expenses item.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - FIXED ASSETS:

a. Composition of assets and accumulated depreciation, grouped by major classifications and changes therein in 2002 are as follows:

| | C o s t | | | Accumulated depreciation | | | | Depreciated balance | | |
|--|------------------|----------------|---------------|--------------------------|----------------|----------------|--------------|---------------------|---------------------------|------------------|
| | Balance | Additions | Retirements | Balance | Balance | Additions | Retirements | Balance | December 31 | |
| | at | | | | at | | | | at end of | at end of |
| | beginning | during | during the | at end of | beginning | during | during the | at end of | Adjusted NIS in thousands | |
| of year | the year | year | year | of year | the year | year | year | | | |
| A d j u s t e d N I S i n t h o u s a n d s | | | | | | | | | | |
| Broadcasting and receiving equipment | 151,619 | 1,729 | | 153,348 | 34,472 | 23,874 | | 58,346 | 95,002 | 117,147 |
| Capitalized installation costs | | | | | | | | | | |
| See c. below | 729,211 | 157,215 | 911 | 885,515 | 73,869 | 90,953 | 11 | 164,811 | 720,704 | 655,342 |
| Digital satellite decoders | | | | | | | | | | |
| See d. below | 566,514 | 210,260 | 27,737 | 749,037 | 116,546 | 183,213 | 8,061 | 291,698 | 457,339 | 449,968 |
| Office furniture and equipment (including computers) | 116,099 | 18,291 | 355 | 134,035 | 44,324 | 41,139 | 178 | 85,285 | 48,750 | 71,775 |
| Leasehold improvements | 27,654 | 1,252 | | 28,906 | 4,117 | 8,901 | | 13,018 | 15,888 | 23,537 |
| | <u>1,591,097</u> | <u>388,747</u> | <u>29,003</u> | <u>1,950,841</u> | <u>273,328</u> | <u>348,080</u> | <u>8,250</u> | <u>613,158</u> | <u>1,337,683</u> | <u>1,317,769</u> |

b. As to liens on the assets - see note 10.

c. In 2002, the Company wrote down approximately adjusted NIS 21 million in respect of installation equipment that it does not expect to use.

d. The retirement of digital satellite decoders in 2002 represents the sale of decoders to customers as part of a one-time marketing campaign.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 – LICENSE FEES - ADVANCE ON ACCOUNT OF ROYALTIES

In accordance with the terms of the License, the Company has undertaken to pay royalties to the Government of Israel, which are calculated on the basis of revenues from the supply of broadcasting services, as defined in the License. The rate of the royalties was set at 1.5% of the Company's revenues for the first five years, commencing January 1, 2000, or until the accumulation of 250,000 subscribers, whichever is the earlier. As of December 31, 2001, the Company has accumulated 250,000 subscribers.

Thereafter, royalties will be computed at the following rates:

| <u>Year</u> | <u>Percentage of the Company's revenues</u> |
|---------------------|---|
| 2003 | 4% |
| 2004 and thereafter | 3.5% |

The payments on account of license fees are considered as a non-refundable advance on account of said royalties. These payments are linked to the index known on balance sheet date (see note 1a(1)).

NOTE 4 - SHAREHOLDERS' LOANS:

- a. At the general meeting of the shareholders of the Company on December 24, 2000, it was decided that the various loans which had been extended by the shareholders to the Company would be linked to the CPI and bear interest at the annual rate of 7%, from the date of their grant to the date of their repayment, or the repayment of any part thereof, as the case may be, or other interest and linkage differences if so decided by a meeting of the shareholders of the Company. These terms will also apply to loans extended to the Company by the shareholders in the future, as long as no decision to the contrary is made by the shareholders' meeting. In addition, it was resolved that the abovementioned decision would take effect on January 24, 2001, unless by that date objections are submitted by a particular shareholder. In the event of such objections by the particular shareholder, the decision would take effect on the date the particular shareholder ceases to be a member of the enterprise.

To date of approval of these financial statements, the shareholder has submitted his objections as aforesaid, and the decision, therefore, had not taken effect. Accordingly, no interest has been charged on the shareholders' loans. The loans, as included in the financial statements, bear interest at the rate of the increase in the known CPI.

- b. In accordance with the agreement, dated December 30, 2002, between the shareholders and the Company, the loans that the shareholders extended to the Company since July 10, 2002 (hereafter - the new shareholders' loans) will have preference over loans extended by the shareholders prior to said date (hereafter - the previous shareholders' loans). The agreement stipulates that the new shareholders' loans are to be fully repaid by the Company prior to any distribution of dividend by the Company and/or the repayment of the previous shareholders' loans, this subject to the Company's cash flows and commitments according to the documents of the Banks. The new shareholders' loans are linked to the known CPI and bear interest at the annual rate of 5.5%.

DBS SATELLITE SERVICES (1998) LTD.
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 - SHAREHOLDERS' LOANS (continued):

As of December 31, 2002, the shareholders' loans are composed as follows:

| | <u>Adjusted NIS in thousands</u> |
|------------------------------|--------------------------------------|
| Previous shareholders' loans | 1,947,457 |
| New shareholders' loans | <u>*143,914</u> |
| | <u>2,091,371</u> |

* Including interest of approximately adjusted NIS 1,840,000.

NOTE 5 - EMPLOYEE RIGHTS UPON RETIREMENT - NET:

- a. Labor laws and agreements require the Company to pay severance pay to employees dismissed or retiring from its employ in certain circumstances. The Company's severance pay liability to its employees (which is based on the number of years worked and the latest monthly salary) is covered mainly by purchase of insurance policies. The amounts funded as above are not reflected in the balance sheets since they are not under the control and management of the Company.
- b. The amount of liability for severance pay presented in the balance sheets reflects that part of the liability not covered as above, in accordance with labor agreements in force.

NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES:

a. Commitments:

- 1) As of December 31, 2002, the Company has entered into agreements for the purchase of broadcasting rights in the aggregate amount of approximately adjusted NIS 216 million (December 31, 2001 - approximately adjusted NIS 395 million).
- 2) The Company has entered into two main operating lease agreements for buildings it uses. One agreement expires in 2003 with an option to renew for three additional years, and the second agreement expires in 2009 with an option to renew for an additional 10 years. The lease fees are linked to the U.S. dollar (hereafter - the dollar). The Company has also entered into several additional operating lease agreements for various periods. The projected annual lease fees for the next five years, at rates in effect on December 31, 2002, are approximately adjusted NIS 10 million.
- 3) As to the Company's undertaking to pay royalties to the Government of Israel, see note 3.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

- 4) The Company has entered into an agreement for the lease of space segments on the Amos 1 satellite. The agreement is for a period of 8.5 years commencing April 14, 2000, with options to renew for additional six month periods at a time.

In addition, on May 16, 2001, the Company has entered into an agreement for the lease of space segments on the Amos 2 satellite, which has not yet been launched into space. The agreement expires after 10 years from the launch of the satellite or at the end of the useful life of the satellite, whichever is earlier. The launch of the satellite is due during the year 2003.

The projected annual lease fees for the next 5 years under said agreements are as follows:

| | Adjusted NIS in thousands |
|---------------------|--------------------------------------|
| 2003 | 137,468 |
| 2004 | 147,036 |
| 2005 | 147,036 |
| 2006 | 154,616 |
| 2007 and thereafter | 158,405 |

- 5) The Company has entered into several operating lease agreements in respect of vehicles that it uses for a period of 4 years. The projected annual lease payments, at rates in effect on December 31, 2002, are approximately adjusted NIS 12 million.

b. Contingent liabilities:

- 1) To secure its liabilities, the Company has provided documentary credit and guarantees in the amount of approximately NIS 67 million.
- 2) Claims:
- a) On November 27, 2001, Reuveni Pridan Advertisers (hereafter - Pridan) filed a claim for NIS 3 million against the Company. Pridan alleges that the Company has unlawfully cancelled the advertising services agreement between them, thereby, inter alia, preventing Pridan from receiving additional commissions under the agreement and damaging Pridan's reputation.

The dispute between the parties has been referred to an arbitrator.

In the opinion of the Company's legal counsel, the outcome of the claim cannot be estimated at this stage. Therefore, no provision was included in respect of this claim.

- b) The Company has a dispute with ICP Israel Cable Programming Co. Ltd (hereafter - ICP) regarding a debt. The dispute was referred to arbitration.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

In December 2002, ICP has submitted the arbitrator a claim for NIS 11,065,000, with the addition of linkage differences and interest until payment date.

In the opinion of the Company's legal counsel, the outcome of the claim cannot be estimated at this stage. Therefore, no provision was included in respect of this claim, except the amount included in ICP's supplier account due to this claim.

- c) Since September 3, 2001, the general manager of the Consumer Council, the Cable and Satellite Broadcast Council (hereafter – the council) and the Head of the Supervising and Control Department in the Ministry of Communications have sent the Company several notices regarding the charging of delivery fees (NIS 2.9 per month) from customers for the delivery of the Yes magazine without prior consent of the customers.

These parties demand that the Company reimburse all the subscribers whose expressed consent had not been received and, that in the future, the Company would avoid charging any amounts without receiving the expressed consent of consumers. Furthermore, the parties point out that the charging of the delivery fees is contrary to the terms of the License and of the subscriber agreements.

In addition, the chairwoman of the Cable and Satellite Broadcast Council notified the Company that she intends to exercise her authority and require the Company to pay a penalty in respect of this matter.

In her letter from June 16, 2002, the chairwoman of the council notified the Company that if the subscription form is amended by the end of the month, no penalty would be imposed. In October 2002, the Company decided to amend the form as required under the abovementioned letter.

In the opinion of the Company's legal counsel, whether a claim would be filed, what measures may be required under such claim or the chances thereof cannot be estimated at this stage.

- d) On September 10, 2002, the Company received a third party notice from Barel Management and Apartment Buildings Maintenance Ltd (hereafter - Barel), which requires the Company to indemnify Barel in respect of any amount ruled under a claim that was filed against Barel and other parties by an apartment building in Givatayim for damage caused to the elevators.

The Company rejects the parts of the statement of claim relating to it and the third party notice. In addition, the Company has submitted a fourth party notice to the subcontractor that performed the installation in said building.

In the opinion of the Company's legal counsel, the chances of the claim cannot be estimated at this stage. Therefore, no provision was made in respect of this claim.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

- e) A dispute arose between the Company and one of its distributors in the Arab sector (hereafter - the distributor) with respect to the termination of the agreement between the parties.

On March 22, 2001, the Company received a liquidation notice from the distributor, in which he requires a payment of approximately NIS 4.8 million in respect of commissions that he alleges are due to him from the Company.

The Company rejects the claims of the distributor and claims that the distributor owes the Company approximately NIS 100,000, before taking into account damages caused to the Company by his breach of the agreement, that have not yet been fully estimated by the Company.

The Company and the distributor are currently negotiating the type of proceedings by which their disputes are to be deliberated.

In the opinion of the Company's legal counsel, it cannot be determined at this stage whether a claim would be filed, what measures may be required under such claim or what the chances of such claim may be.

- f) On December 3, 2002, an application for the approval of a class action against the Company, the Cable and Satellite Broadcast Council and the Ministry of Communications was filed in connection with the broadcasts of Sports Channel 5+. The applicants allege that the broadcasts of Channel 5+ contravene the terms stipulated in the Council's approval for its broadcasts, by draining Channel 5 of content in contravention of the aforementioned approval.

The applicants accuse the Company of alleged deceit, breach of contractual obligations of trust and good faith, fundamental breach of the contract between the Company and its customers, and unjust enrichment. In respect of the above, the applicants estimate that the action amounts to NIS 126 million as of the date of submitting the claim, with a further NIS 10.5 million being added for every month between the date of submitting the claim until judgment.

The Company has submitted its response to the application, requesting to reject the application in limine or, alternatively, reject the underlying claim or the application for its approval as a class action.

In the opinion of the company's legal counsel, at this stage it is difficult to estimate the chances of the claim being approved as a class action, and - if it is so approved - what the chances are of its success. Therefore, no provision was made in respect of this application.

- g) On January 30, 2003, a letter was received from the Ministry of Communications, claiming that the arrangement under which the Company receives deposits from its subscribers in an amount less than the value of the decoder lent, from which it deducts up to 10% of the value of the decoder every year (hereafter - the arrangement) is unlawful and in contradiction of the terms of the License and the subscriber agreements.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

In addition, the Company is required to cease the abovementioned arrangement and reimburse monies to all its subscribers from the deposits of which it had deducted amounts in accordance with the arrangement. According to a preliminary assessment made by the Company, the amounts deducted as above mentioned from costumers who had terminated their contract with the Company aggregates approximately adjusted NIS 2 million. In a response letter sent by the Company and its legal counsel, the Company argues that the arrangement is lawful and substantially economic for its customers.

In the opinion of the Company's legal counsel, it is difficult to estimate at this stage what measures, if any, the Ministry of Communications will take to enforce its demands as above. Therefore, no provision was included in respect of this claim.

NOTE 7 - SHARE CAPITAL:

- a. The share capital is composed of ordinary shares of NIS 1 par value, as follows:

| | December 31 | |
|-----------------|-------------------------|---------------|
| | 2002 | 2001 |
| | Number of shares | |
| Authorized | <u>36,000</u> | <u>36,000</u> |
| Issued and paid | <u>19,888</u> | <u>10,000</u> |

- b. **Stock options to employees**

The employment agreements with certain employees entitle them to participate in an employee stock option plan, should the Company choose to adopt one, under which options would be granted for the purchase of Company shares. The exact number of options to be granted to each employee under such plan will be determined at the sole discretion of the Company's management.

In accordance with the Company's employment agreements with some of its senior employees, each of these employees is to be granted options for the purchase of Company shares, by way of allotment of ordinary shares of NIS 1 par value, at par, so that after the options are exercised, the number of shares held by each of said employees would range between 0.2% and 0.8% of the Company's issued share capital as on the date of the signing of each agreement.

Each employee would be entitled to exercise the options in purchase of the number of shares stipulated in the agreement with such employee. To date of approval of these financial statements, the Company has not adopted an employee stock option plan.

See also note 13a(3).

DBS SATELLITE SERVICES (1998) LTD.
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 8 - TAXES ON INCOME:

a. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter - the inflationary adjustments law)

Under the inflationary adjustments law, results for tax purposes are measured in real terms, having regard to the changes in the CPI. The Company is taxed under this law.

b. Tax rates applicable to the Company

The income of the Company will be taxed at the regular rate of 36%.

c. Losses for tax purposes carried forward to future years

Carryforward losses as of December 31, 2002, amount to adjusted NIS 2,200 million. Under the inflationary adjustments law, carryforward losses are linked to the CPI and can be utilized indefinitely.

Due to the uncertainty of their utilization in the foreseeable future, the Company has not created deferred taxes in its accounts in respect of these losses.

d. Tax assessments

The Company has not been assessed for tax purposes since incorporation.

DBS SATELLITE SERVICES (1998) LTD.
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 9 - LINKAGE TERMS OF MONETARY BALANCES:

a. As follows:

| | December 31, 2002 | | |
|---|---|-------------------|-----------------|
| | In dollars or linked thereto | CPI linked | Unlinked |
| | Adjusted NIS in thousands | | |
| Assets - current: | | | |
| Cash and cash equivalents | 4,519 | | 3 |
| Accounts receivable: | | | |
| Trade | | | 106,266 |
| Other | | | 4,845 |
| | 4,519 | | 111,114 |
| Liabilities: | | | |
| Current liabilities: | | | |
| Accounts payable and accruals: | | | |
| Trade | 196,569 | | 327,357 |
| Other | | 21,138 | 46,417 |
| Bank credit | | 105,030 | 1,020,554 |
| Long-term liabilities: | | | |
| Customer deposits - net | | 42,060 | |
| Other liability, (including current maturity) | | 28,662 | |
| Shareholders' loans | | 2,091,371 | |
| | 196,569 | 2,288,261 | 1,394,328 |

DBS SATELLITE SERVICES (1998) LTD.
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 9 - LINKAGE TERMS OF MONETARY BALANCES (continued):

b. Data regarding the exchange rate and the CPI:

| | Exchange rate of one U.S. dollar | CPI* |
|--------------------------------------|---|--------------|
| At end of year: | | |
| 2002 | NIS 4.737 | 182.0 points |
| 2001 | NIS 4.416 | 170.9 points |
| 2000 | NIS 4.041 | 168.5 points |
| 1999 | NIS 4.153 | 168.5 points |
| Increase (decrease) during the year: | | |
| 2002 | 7.3% | 6.5% |
| 2001 | 9.3% | 1.4% |
| 2000 | (2.7)% | 0.0% |

* Based on the index for the month ending on each balance sheet date, on the basis of 1993 average = 100.

NOTE 10 - LIABILITIES SECURED BY LIENS AND RESTRICTIONS IMPOSED IN CONNECTION WITH LIABILITIES:

a. Following is the balance of secured liabilities and guarantees of the Company:

| | December 31 | |
|---------------------------|----------------------------------|----------------|
| | 2002 | 2001 |
| | Adjusted NIS in thousands | |
| Liabilities - bank credit | <u>1,125,584</u> | <u>939,826</u> |
| Guarantees | <u>66,765</u> | <u>55,713</u> |

- b.** To secure the abovementioned liabilities and guarantees, the Company registered a lien on all its assets, including share capital and goodwill.
- c.** As to the financing agreements that the Company signed with banks which, inter alia, stipulates 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 - see note 1a(2)(b).

DBS SATELLITE SERVICES (1998) LTD.
 NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 11 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

Balance sheets:

a. Accounts receivable:

1) Trade

This item net of an allowance for doubtful accounts of adjusted NIS 10,924,000 (December 31, 2001 - approximately adjusted NIS 5,679,000).

2) Other:

| | December 31 | |
|---|----------------------------------|-------------|
| | 2002 | 2001 |
| | Adjusted NIS in thousands | |
| Institutions (December 31, 2001 - mainly VAT) | 128 | 19,936 |
| Advances to suppliers of purchased channels | | 8,729 |
| Other | 4,717 | 3,104 |
| | 4,845 | 31,769 |

b. Bank credit:

1) Classified by currency, linkage basis and interest rates, the credit is as follows:

| | D e c e m b e r 3 1 | | |
|------------|----------------------------|----------------------------------|-------------|
| | 2002 | 2002 | 2001 |
| | Interest rates | Amount | |
| | % | Adjusted NIS in thousands | |
| CPI linked | 5 | 105,030 | |
| Unlinked | 11.2 | 1,020,554 | 939,826 |
| | | 1,125,584 | 939,826 |

2) As to securities and restrictions imposed in connection with credit - see note 10.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 11 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

c. Accounts payable and accruals:

| | December 31 | |
|---|----------------------------------|----------------|
| | 2002 | 2001 |
| | Adjusted NIS in thousands | |
| 1) Trade: | | |
| Open accounts* | 407,660 | 516,125 |
| Checks and notes payable | 130,592 | 37,169 |
| | <u>538,252</u> | <u>553,294</u> |
| * Including content suppliers | <u>48,780</u> | <u>93,944</u> |
| 2) Other: | | |
| Employees and employee institutions | 14,804 | 16,441 |
| Provision for vacation and recreation pay | 12,224 | 8,273 |
| Customer deposits | 15,932 | 6,778 |
| Institutions | 18,445 | |
| Income received in advance | 11,310 | |
| Sundries | 6,150 | 432 |
| | <u>78,865</u> | <u>31,924</u> |

d. Other liability

On January 3, 2002, the Company filed a claim against Baran Raviv Telecom Ltd. (hereafter - Baran Raviv).

The Company claims, inter alia, that Baran Raviv has failed to fulfill its duties according to the agreement between the two, in which Baran Raviv undertakes to establish, manage and operate an array for the installation of user end equipment for the reception of the Company's broadcasts, as an independent contractor, on behalf of the Company.

The balance of the Company's liabilities to Baran Raviv, according to the settlement reached on February 2002, was NIS 55.5 million, linked to the known CPI. The balance is payable in quarterly installments until the end of 2004. The basic CPI was determined according to the index for January 2002.

The balance of the Company's liabilities to Baran Raviv under the settlement are presented in the financial statements as follows:

| | December 31 | |
|---------------------------|----------------------------------|---------------|
| | 2002 | 2001 |
| | Adjusted NIS in thousands | |
| Among current liabilities | 14,326 | 30,234 |
| As a long-term liability | 14,336 | 28,870 |
| | <u>28,662</u> | <u>59,104</u> |

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 11 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

e. Cost of broadcasting rights

The cost as of December 31, 2002 is presented net of fully utilized rights in the amount of Adjusted NIS 151,794,000 (December 31, 2001 - adjusted NIS 46,274,000).

Statements of operations:

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|---|----------------------------------|----------------|----------------|
| | <u>Adjusted NIS in thousands</u> | | |
| f. Operating expenses**: | | | |
| Salaries and employee related expenses | 107,464 | 82,144 | 14,933 |
| Content costs | 266,033 | *236,977 | 114,283 |
| Amortization of broadcasting rights utilized | 149,386 | 79,746 | 35,004 |
| Consumption of space segments | 106,857 | 71,230 | 37,614 |
| Depreciation and amortization | 322,243 | 194,475 | 53,995 |
| Other | 137,758 | 102,590 | 24,193 |
| | <u>1,089,741</u> | <u>767,162</u> | <u>280,022</u> |
| g. Selling and marketing expenses: | | | |
| Salaries and employee related expenses | 51,605 | 85,660 | 62,407 |
| Advertising | 45,432 | 69,070 | 82,034 |
| Marketing consultation | 5,384 | 8,290 | 17,097 |
| Other | 16,936 | *40,224 | 15,510 |
| | <u>119,357</u> | <u>203,244</u> | <u>177,048</u> |
| h. General and Administrative expenses: | | | |
| Salaries and employee related expenses | 41,472 | 61,233 | 40,336 |
| Consultation and professional fees | 8,023 | 14,310 | 44,850 |
| Rent and maintenance | 14,787 | 14,910 | 9,267 |
| Depreciation | 27,033 | 22,038 | 12,255 |
| Allowance for doubtful accounts | 5,667 | 5,461 | 245 |
| Other | 20,049 | *30,314 | 26,851 |
| | <u>117,031</u> | <u>148,266</u> | <u>133,804</u> |
| i. Financial expenses - net: | | | |
| In respect of bank credit | 41,555 | 76,645 | 25,534 |
| Credit agreement fees | 1,420 | 21,518 | |
| Other - net | 5,109 | 2,891 | (745) |
| | <u>48,084</u> | <u>101,054</u> | <u>24,789</u> |

* Reclassified.

** the operating expenses for 2000 relate to the period from July 1, 2000 to December 31, 2000 (see note 1a(1)).

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 12 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

a. Concentration of credit risks

The cash and cash equivalents as of December 31, 2002 and 2001 are deposited with Israeli banks. The Company is of the opinion that the credit risk in respect of these balances is remote.

The Company's revenues are received in Israel from a large number of customers. Consequently, the balance of the Company's trade receivables does not represent a significant concentration of credit risk as of December 31, 2002.

b. Fair value of financial instruments

The Company's financial instruments as of December 31, 2002 and 2001 are composed mainly of non-derivative assets and liabilities (which include working capital and long-term liabilities). In view of their nature, the fair value of the financial instruments included in working capital is usually close or identical to their carrying value. As to shareholders' loans, see note 4.

NOTE 13 - TRANSACTIONS AND BALANCES WITH INTERESTED PARTIES:

a. Transactions with interested parties:

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|---|----------------------------------|----------------|---------------|
| | <u>Adjusted NIS in thousands</u> | | |
| 1) Operating expenses | <u>156,921</u> | <u>100,646</u> | <u>50,727</u> |
| Selling and marketing, administrative and general expenses | <u>6,804</u> | <u>21,499</u> | <u>13,093</u> |
| 2) Benefits to interested parties - salary to an interested party employed by the Company and a director's fees | <u>2,644</u> | <u>3,342</u> | <u>2,963</u> |

3) Under the employment agreement with the CEO of the Company, the Company is to allot him options exercisable in purchase of ordinary shares of NIS 1 par value of the Company, subject to the adoption of a stock option plan by the Company's board of directors. The options will be granted at no consideration and will be exercisable in purchase of a number of shares representing 0.8% of the Company's issued and paid share capital as of the date of the agreement.

To date of approval of these financial statements, the Company has not adopted an employee stock option plan.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 13 - TRANSACTIONS AND BALANCES WITH INTERESTED PARTIES (continued):

- 4) Under the employment agreement with a former CEO of the Company, he will be entitled to require the Company to purchase from him the shares underlying exercise of the options to which he is entitled on the date he ended his office - 0.25% of the Company's share capital - at a price which will be set according to an estimated Company valuation which will be made within 60 days of the date on which the CEO gave written notice to the Company of his wish to require the Company to purchase the aforesaid shares from him. The CEO's right to require the Company to purchase the shares from him will be valid for a period of two years from the date of his severance, and so long as the Company's shares have not been listed on the stock exchange.

To date of approval of these financial statements, the former CEO has not notified the Company of his intention to require the Company to purchase the shares from him.

b. Balances with interested parties:

| | December 31 | |
|---|----------------------------------|------------------|
| | 2002 | 2001 |
| | Adjusted NIS in thousands | |
| 1) Shareholders' loans (see note 4) | <u>2,091,371</u> | <u>1,670,418</u> |
| 2) Current liabilities – presented in the balance sheets under “accounts payable and accruals” | <u>175,837</u> | <u>71,440</u> |

- c. The Company has entered into an agreement with an interested party for the import of digital satellite decoders. In the year ended December 31, 2002, the Company purchased decoders for the total amount of approximately adjusted NIS 210 million (2001 - approximately adjusted NIS 252 million).
- d. The Company has entered into an agreement with an interested party for the lease of space segments, see note 6.

DBS SATELLITE SERVICES (1998) LTD.
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 14 - NOMINAL DATA OF THE COMPANY:

a. Balance sheet data

| | Nominal NIS in thousands | |
|--|---------------------------------|-------------|
| | December 31 | |
| | 2002 | 2001 |
| A s s e t s | | |
| Current assets: | | |
| Cash and cash equivalents | 4,522 | 21 |
| Accounts receivable: | | |
| Trade | 106,266 | 56,967 |
| Other | 4,845 | 29,831 |
| | 115,633 | 86,819 |
| Broadcasting rights: | | |
| Cost | 241,278 | 286,574 |
| L e s s - utilized rights | 106,711 | 64,300 |
| | 134,567 | 222,274 |
| Fixed assets: | | |
| Cost | 1,842,404 | 1,484,682 |
| L e s s - accumulated depreciation | 574,567 | 254,135 |
| | 1,267,837 | 1,230,547 |
| License fees - advance on account of royalties | 4,583 | 26,192 |
| | 1,522,620 | 1,565,832 |
| Liabilities, net of capital deficiency | | |
| Current liabilities: | | |
| Accounts payable and accruals: | | |
| Trade | 538,252 | 519,551 |
| Other | 78,865 | 29,977 |
| | 617,117 | 549,528 |
| Bank credit | 1,125,584 | 882,510 |
| T o t a l current liabilities | 1,742,701 | 1,432,038 |
| Long-term liabilities: | | |
| Liability for employee rights upon retirement, net | 2,840 | 1,151 |
| Customer deposits | 42,060 | 19,241 |
| Other liability, net of current maturity | 14,336 | 27,110 |
| T o t a l long-term liabilities | 59,236 | 47,502 |
| Shareholders' loans | 2,091,371 | 1,568,546 |
| T o t a l liabilities | 3,893,308 | 3,048,086 |
| Capital deficiency, see c. below | (2,370,688) | (1,482,254) |
| | 1,522,620 | 1,565,832 |

DBS SATELLITE SERVICES (1998) LTD.
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 14 - NOMINAL DATA OF THE COMPANY (CONTINUED):

b. Operating results data

| | Nominal NIS in thousands | | |
|-------------------------------------|--------------------------|----------|---------|
| | 2002 | 2001 | 2000 |
| Revenues | 665,865 | 305,011 | 26,281 |
| Operating expenses | 1,056,700 | *716,126 | 245,786 |
| Gross loss | 390,835 | 411,115 | 219,505 |
| Selling and marketing expenses | 117,755 | *189,906 | 183,729 |
| General and Administrative expenses | 113,966 | *138,352 | 117,553 |
| Loss from ordinary operations | 622,556 | 739,373 | 520,787 |
| Financial expenses, net | 245,845 | 115,348 | 23,151 |
| Other expenses | 20,042 | | |
| Loss for the year - nominal | 888,443 | 854,721 | 543,938 |

* Reclassified.

c. Changes in capital deficiency:

| | Nominal NIS in thousands | | | |
|------------------------------|--------------------------|-------------------------------|---------------------|-------------|
| | Share capital | Receipts on account of shares | Accumulated deficit | Total |
| Balance at January 1, 2000 | * | 1 | (83,605) | (83,604) |
| Changes during 2000: | | | | |
| Issuance of share capital | 10 | (1) | | 9 |
| Loss | | | (543,938) | (543,938) |
| Balance at December 31, 2000 | 10 | -,- | (627,543) | (627,533) |
| Changes during 2001 - loss | | | (854,721) | (854,721) |
| Balance at December 31, 2001 | 10 | -,- | (1,482,264) | (1,482,254) |
| Changes during 2002: | | | | |
| Issuance of share capital | 9 | | | 9 |
| Loss | | | (888,443) | (888,443) |
| Balance at December 31, 2002 | 19 | -,- | (2,370,707) | (2,370,688) |

* Represents an amount of less than NIS 1,000.