

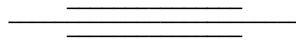
Translation from Hebrew

DBS SATELLITE SERVICES (1998) LTD.
CONDENSED INTERIM FINANCIAL STATEMENTS
AS OF MARCH 31, 2002
(Unaudited)

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AS OF MARCH 31, 2002
(Unaudited)

TABLE OF CONTENTS

| | Page |
|--|-------------|
| AUDITORS' REVIEW REPORT | 2 |
| CONDENSED FINANCIAL STATEMENTS - IN ADJUSTED NEW SHEKELS (NIS): | |
| Balance sheet | 3 |
| Statement of operations | 4 |
| Statement of changes in capital deficiency | 5 |
| Statement of cash flows | 6-7 |
| Notes to financial statements | 8-10 |



May 27, 2002

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

Dear Sirs,

Re: Review of unaudited condensed interim financial statements for
the period ended March 31, 2002

At your request, we have reviewed the condensed interim balance sheet of DBS Satellite Services (1998) Ltd. (hereafter - the Company) as of March 31, 2002 and the condensed interim statements of operations, changes in capital deficiency and cash flows for the three month period then ended. Our review was performed in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel. Inter alia, these procedures include: reading of the aforementioned financial statements, reading of minutes of meetings of shareholders and of 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 the abovementioned condensed interim financial statements.

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

We draw attention to Note 3 to the condensed financial statements regarding the financial position of the Company, the non-compliance with certain terms specified in the financing agreement between the Company and banks, the need for additional funding in substantially larger amounts than those defined in the financing agreement and the agreements reached with banks for the period ending on June 30, 2002.

As explained in the abovementioned note, the Company's activity depends on the continued execution of the financing agreement, increase of the credit facilities provided by banks and the receipt of additional loans from shareholders. Management's opinion as to the chances of achieving the required financing arrangements is presented in note 3d.

Sincerely yours,

DBS SATELLITE SERVICES (1998) LTD.**CONDENSED BALANCE SHEET**

AS OF MARCH 31, 2002

IN MARCH 2002 ADJUSTED NIS

| | March 31 | | December 31, |
|---|------------------|------------------|------------------|
| | 2002 | 2001 | 2001 |
| | (Unaudited) | | (Audited) |
| | In thousands | | |
| A s s e t s | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | 382 | | 22 |
| Accounts receivable: | | | |
| Trade | 71,073 | 6,031 | 58,314 |
| Other | 10,282 | 25,312 | 30,535 |
| T o t a l current assets | <u>81,737</u> | <u>31,343</u> | <u>88,871</u> |
| BROADCASTING RIGHTS: | | | |
| Cost | 271,850 | 259,381 | 293,348 |
| Less - utilized rights | 58,753 | 45,678 | 65,820 |
| | <u>213,097</u> | <u>213,703</u> | <u>227,528</u> |
| FIXED ASSETS: | | | |
| Cost | 1,635,284 | 1,105,362 | 1,529,380 |
| Less - accumulated depreciation | 329,052 | 101,525 | 262,726 |
| | <u>1,306,232</u> | <u>1,003,837</u> | <u>1,266,654</u> |
| LICENSE FEES - ADVANCE ON ACCOUNT OF ROYALTIES | | | |
| | 22,130 | 30,523 | 26,811 |
| | <u>1,623,196</u> | <u>1,279,406</u> | <u>1,609,864</u> |
| Liabilities, net of capital deficiency | | | |
| CURRENT LIABILITIES: | | | |
| Bank credit | 933,071 | 591,135 | 903,371 |
| Accounts payables and accruals: | | | |
| Trade | 589,381 | 315,292 | 531,832 |
| Other | 34,061 | *16,088 | 30,685 |
| T o t a l current liabilities | <u>1,556,513</u> | <u>922,515</u> | <u>1,465,888</u> |
| LONG-TERM LIABILITIES: | | | |
| Shareholders' loans | 1,689,343 | 1,197,880 | 1,605,624 |
| Liability for employee rights upon retirement | 1,151 | | 1,178 |
| Customer deposits | 29,706 | *459 | 19,696 |
| Other liabilities | 23,720 | | 27,751 |
| T o t a l long-term liabilities | <u>1,743,920</u> | <u>1,198,339</u> | <u>1,654,249</u> |
| T o t a l liabilities | <u>3,300,433</u> | <u>2,120,854</u> | <u>3,120,137</u> |

| | | | |
|---------------------------|-------------------|--------------------------------------|-------------------|
| CAPITAL DEFICIENCY | (1,677,237) | Translation from Hebrew (841,448) | (1,510,273) |
| | <u> </u> | <u> </u> | <u> </u> |
| | <u>1,623,196</u> | <u>1,279,406</u> | <u>1,609,864</u> |
| | <u> </u> | <u> </u> | <u> </u> |

* Reclassified

Joshua Harel
Deputy Financial Officer

Shlomo Liran
Chief Executive Officer

David Brodet
Chairman of the
Board of Directors

Date of approval of the financial statements: May 27, 2002.

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

DBS SATELLITE SERVICES (1998) LTD.
CONDENSED STATEMENT OF OPERATIONS
FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2002
IN MARCH 2002 ADJUSTED NIS

| | 3 months ended | | Year ended |
|---|-----------------------|-------------|---------------------|
| | March 31 | | December 31, |
| | 2002 | 2001 | 2001 |
| | (Unaudited) | | (Audited) |
| | In thousands | | |
| REVENUES | 131,418 | 46,679 | 312,944 |
| OPERATING EXPENSES | 248,286 | *151,871 | 724,371 |
| GROSS LOSS | 116,868 | 105,192 | 411,427 |
| SELLING, MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES: | | | |
| Selling and marketing | 36,756 | *35,623 | 193,517 |
| General and administrative | 29,499 | *36,305 | 157,392 |
| LOSS FROM ORDINARY OPERATIONS | 183,123 | 177,120 | 762,336 |
| FINANCIAL EXPENSES (INCOME), net | (16,159) | 13,507 | 97,116 |
| LOSS FOR THE PERIOD | 166,964 | 190,627 | 859,452 |

* Reclassified

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

DBS SATELLITE SERVICES (1998) LTD.
CONDENSED STATEMENT OF CHANGES IN CAPITAL DEFICIENCY
FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2002
IN MARCH 2002 ADJUSTED NIS

| | <u>Share capital and premium</u> | <u>Accumulated deficit</u> | <u>Total</u> |
|---|--|--------------------------------|--------------------|
| | <u>In thousands</u> | | |
| BALANCE AS OF JANUARY 1, 2002 (audited) | 10 | (1,510,283) | (1,510,273) |
| CHANGES DURING THE 3 MONTHS ENDED MARCH 31, 2002 (unaudited) - loss | | <u>(166,964)</u> | <u>(166,964)</u> |
| BALANCE AS OF MARCH 31, 2002 (unaudited) | <u>10</u> | <u>(1,677,247)</u> | <u>(1,677,237)</u> |
| BALANCE AS OF 1 JANUARY, 2001 (audited) | 10 | (650,831) | (650,821) |
| CHANGES DURING THE 3 MONTHS ENDED MARCH 31, 2001 (unaudited) - loss | | <u>(190,627)</u> | <u>(190,627)</u> |
| BALANCE AS OF MARCH 31, 2001 (unaudited) | <u>10</u> | <u>(841,458)</u> | <u>(841,448)</u> |
| BALANCE AS OF JANUARY 1, 2001 (audited) | 10 | (650,831) | (650,821) |
| CHANGES DURING THE YEAR ENDED DECEMBER 31, 2001 (audited) - loss | | <u>(859,452)</u> | <u>(859,452)</u> |
| BALANCE AS OF DECEMBER 31, 2001 (audited) | <u>10</u> | <u>(1,510,283)</u> | <u>(1,510,273)</u> |

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

DBS SATELLITE SERVICES (1998) LTD.
CONDENSED STATEMENT OF CASH FLOWS
FOR THE 3 MONTH PERIOD ENDED MARCH 31, 2002
IN MARCH 2002 ADJUSTED NIS

| | 3 months ended | | Year ended |
|---|-----------------------|-------------------|---------------------|
| | March 31 | | December 31, |
| | 2002 | 2001 | 2001 |
| | (Unaudited) | | (Audited) |
| | In thousands | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Loss for the period | (166,964 | (190,627) | (859,452) |
| |) | | |
| Adjustments required to reflect the cash flows from operating activities (a) | <u>166,752</u> | <u>(166,643)</u> | <u>273,311</u> |
| Net cash used in operating activities | <u>(212)</u> | <u>(357,270)</u> | <u>(586,141)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of fixed assets | (113,642 | (106,430) | (522,580) |
| |) | | |
| Purchase of broadcasting rights | <u>(8,103)</u> | <u>*(25,068)</u> | <u>*(95,584)</u> |
| Net cash used in investing activities | <u>(121,745</u> | <u>(131,498)</u> | <u>(618,164)</u> |
| |) | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Receipt of long-term loans from shareholders | 92,617 | 408,520 | 811,829 |
| Short-term bank credit - net | <u>29,700</u> | <u>79,810</u> | <u>392,060</u> |
| Net cash provided by financing activities | <u>122,317</u> | <u>488,330</u> | <u>1,203,889</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>360</u> | <u>(438)</u> | <u>(416)</u> |
| BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | <u>22</u> | <u>438</u> | <u>438</u> |
| BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u><u>382</u></u> | <u><u>-,-</u></u> | <u><u>22</u></u> |

* Reclassified.

DBS SATELLITE SERVICES (1998) LTD.
CONDENSED STATEMENT OF CASH FLOWS
FOR THE 3 MONTH PERIOD ENDED 31 MARCH, 2002
IN MARCH 2002 ADJUSTED NIS

| | 3 months ended | | Year ended |
|--|-----------------------|-------------|---------------------|
| | March 31 | | December 31, |
| | 2002 | 2001 | 2001 |
| | (Unaudited) | | (Audited) |
| | In thousands | | |
| (a) Adjustments required to reflect the cash flows from operating activities: | | | |
| Income and expenses not involving cash flows: | | | |
| Depreciation and amortization | 97,274 | 56,094 | 285,613 |
| Liability for employee rights upon retirement, net | (27) | | 1,178 |
| Linkage differences on (erosion of) principal of long-term shareholders' loans | (8,898) | (3,402) | 1,053 |
| | 88,349 | 52,692 | 287,844 |
| Changes in operating asset and liability items: | | | |
| Decrease (increase) in accounts receivable | 7,494 | 17,250 | (40,258) |
| Increase (decrease) in accounts payable and accruals (including customer deposits) | 70,909 | *(236,585) | *25,725 |
| | 78,403 | (219,335) | (14,533) |
| | 166,752 | (166,643) | 273,311 |

(b) Supplementary information on investment activities not involving cash flows -

In the three month period ended March 31, 2002, the Company purchased fixed assets and broadcasting rights in the amount of adjusted NIS 84 million and adjusted NIS 12 million, respectively, using suppliers' credit.

* Reclassified.

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

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

AS OF MARCH 31, 2002

1. General

The condensed interim financial statements as of March 31, 2002 and for the three month period then ended (hereafter - the interim statements) were drawn up in a condensed form, in accordance with accounting principles generally accepted for interim financial statements and with the Securities Regulations (Periodic and immediate reports), 1970. The generally accepted accounting principles applied in preparation of the interim statements are consistent with those applied in the preparation of the annual financial statements. However, the interim statements do not include all the information and notes required for the annual financial statements.

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 an additional period of six years, subject to 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 granted to it under the Telecommunications Law.

3. The Company's financial position

- a) The Company expects significant losses and a negative cash flow from operating activities during the first years of activity. The loss for 2001 amounted to approximately adjusted NIS 859 million, and the loss for the three months ended March 31, 2002 amounted to approximately adjusted NIS 167 million. The negative cash flow from operating activities amounted to approximately adjusted NIS 586 million and approximately adjusted NIS 212,000 in 2001 and in the three month period ended March 31, 2002, respectively. As a result of these losses, the working capital deficiency aggregated approximately adjusted NIS 1,475 million (including approximately adjusted NIS 933 million in short-term bank credit).
- b) On May 23, 2001, the Company entered into a financing agreement with banks (hereafter - the financing agreement). The financing agreement stipulates, 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).

To date of the approval of these financial statements, not all of the said terms had been fulfilled.

In addition, a financial evaluation performed by the banks shows that the amount of finance required for the Company's activities substantially exceeds the financing requirements defined in the financing agreement.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

AS OF MARCH 31, 2002

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

b) (continued)

Following the financial evaluation, the Company, its shareholders and the banks are discussing and examining possible ways for obtaining the finance required by the Company and the required conditions that will allow the Company to fulfill its obligations.

On May 1, 2002, the Company and the banks signed an addendum to the financing agreement. In addition, on the same date the Company signed a bond in favor of the banks and the shareholders registered a first ranking fixed charge, in favor of the banks, on their rights pertaining to shareholders' loans that have been and that will be granted to the Company by the shareholders.

As part of the arrangements reached with the banks, it was determined that the Company is to search for a solution, to the satisfaction of its shareholders and the banks, for obtaining the additional funds required for financing the Company's activities. The Company should also present a business plan that would testify as to its ability to meet its obligations to the banks.

In the event that such a solution is not established until June 30, 2002, the banks would be entitled to take, at their sole discretion, the steps necessary to collect all the amounts due to them and act on their rights stipulated in the financing agreement in the event of a violation of the agreement.

The banks have undertaken to continue, until June 30, 2002, to provide additional funds in accordance with the financing agreement, as if no violations had taken place, conditional upon the investment of additional capital by the shareholders, including shareholders' loans, in an amount not less than 150% of the amount of funds that would be provided by the banks. In addition, this undertaking by the banks is conditional upon the occurrence of no additional violations, as defined in the financing agreement, and is effective as long as the banks do not conclude, at their sole discretion, that an adequate solution for obtaining additional funds, as mentioned above, is not likely to be reached.

- c) The Company's activities are financed by shareholders' loans and credit from banks. The receipt of additional loans from a principal shareholder is, inter alia, conditional upon the approval of the Ministerial Committee for Privatization (hereafter - the Committee). To date of the approval of the financial statements, the Committee has allowed the shareholder to increase his exposure up to the sum of the multiplication of the percentage of his shareholding of the Company's share capital by U.S. \$ 480 million.
- d) The Company's activity depends on the continued execution of the financing agreement, increase of the credit facilities provided by banks and the receipt of additional loans from shareholders. The Company's management believes that the agreements between the shareholders and the existing credit facilities should suffice for most of the finance that would be required for the Company's operations in the following year, and that there are good chances that the ongoing deliberations between the Company, the shareholders and the banks will yield an arrangement for the remaining financing required.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

AS OF MARCH 31, 2002

4. In October 2001, the IASB issued Israel Accounting Standard No. 12 - Discontinuance of Adjusting Financial Statements for Inflation. 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 the world, due to the significant decrease in recent years in the inflation rates. The date for the transition to nominal-historical reporting will be December 31, 2002.

The implementation of Standard No. 12 will mainly affect the financing expenses item, commencing January 1, 2003.

According to this Standard, the inflation-adjusted amounts as of December 31, 2002, will be the base for the nominal-historical financial reporting in the following periods.

5. Data regarding the changes in the exchange rate of the U.S. dollar (hereafter - the dollar) and in the consumer price index:

| | <u>Exchange rate of the dollar</u> | <u>Consumer price index</u> |
|------------------------------|--|---------------------------------|
| Three months ended March 31: | | |
| 2002 | 5.7% | 2.3% |
| 2001 | 3.7% | (0.5%) |
| Year ended December 31, 2001 | 9.3% | 1.4% |
