

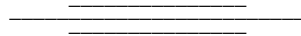
Translation from Hebrew

DBS SATELLITE SERVICES (1998) LTD.
CONDENSED INTERIM FINANCIAL STATEMENTS
AS OF JUNE 30, 2002
(Unaudited)

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August 26, 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 periods ended June 30, 2002

At your request, we have reviewed the condensed interim balance sheet of DBS Satellite Services (1998) Ltd. (hereafter - the Company) as of June 30, 2002 and the condensed interim statements of operations, changes in capital deficiency and cash flows for the six and three month periods then ended. Our review was performed in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel. Inter alia, these procedures include: reading of the aforementioned financial statements, reading of minutes of 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 need for additional funding in substantially larger amounts than those defined in the financing agreement between the Company and banks and the agreements in principle, formulated to the date of these financial statements, between the Company, its shareholders and the banks.

As explained in the abovementioned note, the Company's continued activity depends on the execution of the agreements in principle with the banks regarding the increase of credit facilities and on 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 JUNE 30, 2002

IN JUNE 2002 ADJUSTED NIS

	June 30		December 31,
	2002	2001	2001
	(Unaudited)		(Audited)
	In thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	4,212	43	22
Accounts receivable:			
Trade	89,869	11,014	60,557
Other	12,899	26,621	31,711
T o t a l current assets	<u>106,980</u>	<u>37,678</u>	<u>92,290</u>
BROADCASTING RIGHTS:			
Cost	306,837	292,335	304,633
Less - utilized rights	<u>92,663</u>	<u>61,135</u>	<u>68,352</u>
	<u>214,174</u>	<u>231,200</u>	<u>236,281</u>
FIXED ASSETS:			
Cost	1,820,865	1,278,577	1,588,212
Less - accumulated depreciation	<u>421,536</u>	<u>144,193</u>	<u>272,832</u>
	<u>1,399,329</u>	<u>1,134,384</u>	<u>1,315,380</u>
LICENSE FEES - ADVANCE ON ACCOUNT OF ROYALTIES	19,689	29,952	27,843
	<u>1,740,172</u>	<u>1,433,214</u>	<u>1,671,794</u>
Liabilities, net of capital deficiency			
CURRENT LIABILITIES:			
Bank credit	1,030,089	739,474	938,122
Accounts payables and accruals:			
Trade	568,613	459,632	552,291
Other	39,515	22,451	31,866
T o t a l current liabilities	<u>1,638,217</u>	<u>1,221,557</u>	<u>1,522,279</u>
LONG-TERM LIABILITIES:			
Shareholders' loans	1,913,300	1,305,151	1,667,389
Liability for employee rights upon retirement, net	1,151		1,224
Customer deposits	39,294	*2,103	20,453
Other liabilities	25,510		28,818
T o t a l long-term liabilities	<u>1,979,255</u>	<u>1,307,254</u>	<u>1,717,884</u>
T o t a l liabilities	<u>3,617,472</u>	<u>2,528,811</u>	<u>3,240,163</u>
CAPITAL DEFICIENCY	<u>(1,877,300)</u>	<u>(1,095,597)</u>	<u>(1,568,369)</u>
	<u>1,740,172</u>	<u>1,433,214</u>	<u>1,671,794</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: August 26, 2002.

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

DBS SATELLITE SERVICES (1998) LTD.
CONDENSED STATEMENTS OF OPERATIONS
FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2002
IN JUNE 2002 ADJUSTED NIS

	6 months ended June 30		3 months ended June 30		Year ended December 31,
	2002	2001	2002	2001	2001
	(Unaudited)		(Unaudited)		(Audited)
	I n t h o u s a n d s				
REVENUES	298,204	114,655	161,731	66,180	324,982
OPERATING EXPENSES	534,396	*307,688	276,559	*149,975	752,237
GROSS LOSS	236,192	193,033	114,828	83,795	427,255
SELLING, MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES:					
Selling and marketing	69,584	*100,020	31,414	*63,027	200,961
General and administrative	61,113	* 82,500	30,479	*44,798	163,446
LOSS FROM ORDINARY OPERATIONS	366,889	375,553	176,721	191,620	791,662
FINANCIAL EXPENSES (INCOME), net	(57,958)	44,187	(41,177)	30,160	100,850
LOSS FOR THE PERIOD	308,931	419,740	135,544	221,780	892,512

* Reclassified

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

DBS SATELLITE SERVICES (1998) LTD.
CONDENSED STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY
FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2002
IN JUNE 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)	11	(1,568,380)	(1,568,369)
CHANGES DURING THE 6 MONTHS ENDED JUNE 30, 2002 (unaudited) - loss		<u>(308,931)</u>	<u>(308,931)</u>
BALANCE AS OF JUNE 30, 2002 (unaudited)	<u>11</u>	<u>(1,877,311)</u>	<u>(1,877,300)</u>
BALANCE AS OF JANUARY 1, 2001 (audited)	11	(675,868)	(675,857)
CHANGES DURING THE 6 MONTHS ENDED JUNE 30, 2001 (unaudited) - loss		<u>(419,740)</u>	<u>(419,740)</u>
BALANCE AS OF JUNE 30, 2001 (unaudited)	<u>11</u>	<u>(1,095,608)</u>	<u>(1,095,597)</u>
BALANCE AS OF APRIL 1, 2002 (unaudited)	11	(1,741,767)	(1,741,756)
CHANGES DURING THE 3 MONTHS ENDED JUNE 30, 2002 (unaudited) - loss		<u>(135,544)</u>	<u>(135,544)</u>
BALANCE AS OF JUNE 30, 2002 (unaudited)	<u>11</u>	<u>(1,877,311)</u>	<u>(1,877,300)</u>
BALANCE AS OF APRIL 1, 2001 (unaudited)	11	(873,828)	(873,817)
CHANGES DURING THE 3 MONTHS ENDED JUNE 30, 2001 (unaudited) - loss		<u>(221,780)</u>	<u>(221,780)</u>
BALANCE AS OF JUNE 30, 2001 (unaudited)	<u>11</u>	<u>(1,095,608)</u>	<u>(1,095,597)</u>
BALANCE AS OF JANUARY 1, 2001 (audited)	11	(675,868)	(675,857)
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2001 (audited) - loss		<u>(892,512)</u>	<u>(892,512)</u>
BALANCE AS OF DECEMBER 31, 2001 (audited)	<u>11</u>	<u>(1,568,380)</u>	<u>(1,568,369)</u>

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

DBS SATELLITE SERVICES (1998) LTD.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2002
IN JUNE 2002 ADJUSTED NIS

	6 months ended		3 months ended		Year ended
	June 30,		June 30,		December 31,
	2002	2001	2002	2001	2001
	(Unaudited)		(Unaudited)		(Audited)
	I n t h o u s a n d s				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Loss for the period	(308,931)	(419,740)	(135,544)	(221,780)	(892,512)
Adjustments required to reflect the cash flows from operating activities (a)	<u>266,829</u>	<u>3,232</u>	<u>93,662</u>	<u>176,286</u>	<u>258,771</u>
Net cash used in operating activities	<u>(42,102)</u>	<u>(416,508)</u>	<u>(41,882)</u>	<u>(45,494)</u>	<u>(633,741)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of fixed assets	(289,579)	(225,355)	(171,565)	(114,832)	(542,682)
Purchase of broadcasting rights	<u>(24,079)</u>	<u>*(54,166)</u>	<u>(15,665)</u>	<u>*(28,133)</u>	<u>*(74,209)</u>
Net cash used in investing activities	<u>(313,658)</u>	<u>(279,521)</u>	<u>(187,230)</u>	<u>(142,965)</u>	<u>(616,891)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Receipt of long-term loans from shareholders	267,983	487,138	171,803	62,903	843,059
Short-term bank credit - net	<u>91,967</u>	<u>208,479</u>	<u>61,124</u>	<u>125,599</u>	<u>407,140</u>
Net cash provided by financing activities	<u>359,950</u>	<u>695,617</u>	<u>232,927</u>	<u>188,502</u>	<u>1,250,199</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,190	(412)	3,815	43	(433)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>22</u>	<u>455</u>	<u>397</u>	<u>_____</u>	<u>455</u>
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>4,212</u>	<u>43</u>	<u>4,212</u>	<u>43</u>	<u>22</u>

* Reclassified.

DBS SATELLITE SERVICES (1998) LTD.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE 6 AND 3 MONTH PERIODS ENDED JUNE 30, 2002
IN JUNE 2002 ADJUSTED NIS

	<u>6 months ended</u>		<u>3 months ended</u>		<u>Year ended</u>
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>December 31,</u>
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		<u>(Audited)</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:					
Income and expenses not involving cash flows:					
Utilized rights	67,508	26,194	40,231	12,849	79,602
Depreciation and amortization of license fees	156,858	86,254	83,119	41,348	216,996
Liability for employee rights upon retirement, net	(73)		(45)		1,224
Linkage differences on (erosion of) principal of long-term shareholders' loans	<u>(22,072)</u>	<u>(5,246)</u>	<u>(12,832)</u>	<u>(1,714)</u>	<u>1,094</u>
	<u>202,221</u>	<u>107,202</u>	<u>110,473</u>	<u>52,483</u>	<u>298,916</u>
Changes in operating asset and liability items:					
Decrease (increase) in accounts receivable	(10,500)	12,828	(18,282)	(5,086)	(41,806)
Increase (decrease) in accounts payable and accruals (including customer deposits)	<u>75,108</u>	<u>*(116,798)</u>	<u>1,471</u>	<u>*128,889</u>	<u>*1,661</u>
	<u>64,608</u>	<u>(103,970)</u>	<u>(16,811)</u>	<u>123,803</u>	<u>(40,145)</u>
	<u>266,829</u>	<u>3,232</u>	<u>93,662</u>	<u>176,286</u>	<u>258,771</u>
(b) Supplementary information on investing activities not involving cash flows -					
Increase (decrease) in suppliers' credit in respect of purchase of fixed assets	<u>(56,926)</u>	<u>40,563</u>	<u>(48,890)</u>	<u>15,837</u>	<u>32,871</u>
Increase (decrease) in suppliers' credit in respect of purchase of broadcasting rights	<u>21,322</u>	<u>5,596</u>	<u>17,445</u>	<u>(5,163)</u>	<u>44,041</u>

In the six month period ended June 30, 2002, the Company purchased fixed assets and broadcasting rights in the amount of adjusted NIS 233 million and adjusted NIS 45 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 JUNE 30, 2002

1. General

The condensed interim financial statements as of June 30, 2002 and for the six month and three month periods then ended (hereafter - the interim statements) were drawn up in a condensed form, in accordance with accounting principles generally accepted for interim financial statements and with the Securities 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 893 million, and the loss for the six months ended June 30, 2002 amounted to approximately adjusted NIS 309 million. The negative cash flow from operating activities amounted to approximately adjusted NIS 634 million and approximately adjusted NIS 42 million in 2001 and in the six month period ended June 30, 2002, respectively. As a result of these losses, the working capital deficiency as of June 30, 2002 aggregated approximately adjusted NIS 1,531 million (including approximately adjusted NIS 1,030 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 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 JUNE 30, 2002

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

b) (continued)

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 be agreed to by its shareholders and to the satisfaction of 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 found by 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 breach of the agreement.

The banks continued to provide additional funds, until June 30, 2002, in accordance with the financing agreement, in parallel with additional investments made by the shareholders by way of shareholders' loans.

To date of the approval of these financial statements, the Company, its shareholders and the banks had formulated an agreement in principle with regard to increasing the credit facilities in parallel with additional investments by the shareholders in an amount not less than 150% of the amount of funds that would be provided by the banks. The aforementioned financing agreement has not yet been signed and is conditional upon, among other matters, obtaining the necessary documents and agreements, and also the approval of the authorizing bodies within the parties to the agreement.

The shareholders have agreed to provide the Company with additional credit facilities prior to finalization of the signing of the financing agreement with the banks.

- 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 arrived at by multiplying the percentage of his holding in the Company's share capital by U.S. \$ 480 million. As of June 30, 2002, the balance of the shareholders' loans granted by this shareholder amounted to NIS 973 million.
- d) The Continuation of the Company's activity depends on the execution of the agreement in principle formulated with the banks for the increase of the credit facilities, as referred to above, and the receipt of additional loans from shareholders.

The Company's management believes that the chances are good that the ongoing deliberations between the Company, the shareholders and the banks will result in the execution of the agreement in principle formulated with the banks and shareholders, and in an arrangement for the financing required by the company in the coming year.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

AS OF JUNE 30, 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>
Six months ended June 30:		
2002	8.0%	6.3%
2001	3.1%	1.1%
Three months ended June 30:		
2002	2.2%	3.8%
2001	(0.6%)	1.6%
Year ended December 31, 2001	9.3%	1.4%