

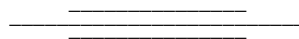
Translation from Hebrew

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

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

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November 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 September 30, 2002

At your request, we have reviewed the condensed interim balance sheet of DBS Satellite Services (1998) Ltd. (hereafter - the Company) as of September 30, 2002 and the condensed interim statements of operations, changes in capital deficiency and cash flows for the nine and three month periods then ended. Our review was performed in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel. Inter alia, these procedures include: reading of the aforementioned financial statements, reading of minutes of meetings of shareholders 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 to indicate that significant adjustments should be made in the aforementioned interim financial statements in order for them to be considered as having been prepared 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 certain 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.

As mentioned in note 3c, the receipt of additional loans from a principal shareholder is subject, inter alia, to the approval of the Ministerial Committee for Privatization. The principal shareholder is taking steps to obtain the approval of said committee for increasing his exposure.

Sincerely yours,

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

AS OF SEPTEMBER 30, 2002

IN SEPTEMBER 2002 ADJUSTED NIS

	<b>September 30</b>		<b>December 31,</b>
	<b>2002</b>	<b>2001</b>	<b>2001</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>In thousands</b>		
<b>A s s e t s</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	3,939		22
Accounts receivable:			
Trade	113,582	15,085	60,947
Other	9,198	14,527	31,915
T o t a l current assets	<u>126,719</u>	<u>29,612</u>	<u>92,884</u>
<b>BROADCASTING RIGHTS, see note 4:</b>			
Cost	316,200	325,651	306,594
Less - utilized rights	117,566	83,132	68,792
	<u>198,634</u>	<u>242,519</u>	<u>237,802</u>
<b>FIXED ASSETS:</b>			
Cost	1,897,859	1,418,293	1,598,440
Less - accumulated depreciation	523,610	200,851	274,590
	<u>1,374,249</u>	<u>1,217,442</u>	<u>1,323,850</u>
<b>LICENSE FEES - ADVANCE ON ACCOUNT OF ROYALTIES</b>			
	13,025	29,106	28,022
	<u>1,712,627</u>	<u>1,518,679</u>	<u>1,682,558</u>
<b>Liabilities, net of capital deficiency</b>			
<b>CURRENT LIABILITIES:</b>			
Bank credit	1,076,527	816,423	944,162
Accounts payables and accruals:			
Trade	603,266	433,756	555,848
Other	61,724	*19,053	32,071
T o t a l current liabilities	<u>1,741,517</u>	<u>1,269,232</u>	<u>1,532,081</u>
<b>LONG-TERM LIABILITIES:</b>			
Shareholders' loans	2,016,361	1,559,276	1,678,127
Liability for employee rights upon retirement, net	2,620		1,231
Customer deposits, net	43,040	*11,456	20,585
Other liabilities	20,792		29,004
T o t a l long-term liabilities	<u>2,082,813</u>	<u>1,570,732</u>	<u>1,728,947</u>
T o t a l liabilities	<u>3,824,330</u>	<u>2,839,964</u>	<u>3,261,028</u>
<b>CAPITAL DEFICIENCY</b>	<u>(2,111,703)</u>	<u>(1,321,285)</u>	<u>(1,578,470)</u>
	<u>1,712,627</u>	<u>1,518,679</u>	<u>1,682,558</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: November 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 9 AND 3 MONTH PERIODS ENDED SEPTEMBER 30, 2002**  
**IN SEPTEMBER 2002 ADJUSTED NIS**

	<u>9 months ended</u> <u>September 30</u>		<u>3 months ended</u> <u>September 30</u>		<u>Year ended</u> <u>December 31,</u>
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		<u>(Audited)</u>
	<b>I n t h o u s a n d s</b>				
<b>REVENUES</b>	490,571	205,215	190,447	89,821	327,075
<b>OPERATING EXPENSES</b>	818,653	*512,108	280,816	*194,695	757,081
<b>GROSS LOSS</b>	<u>328,082</u>	<u>306,893</u>	<u>90,369</u>	<u>104,874</u>	<u>430,006</u>
<b>SELLING, MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES:</b>					
Selling and marketing	98,517	151,632	28,485	50,968	202,255
General and administrative	<u>87,981</u>	<u>*119,396</u>	<u>26,474</u>	<u>*44,109</u>	<u>164,499</u>
<b>LOSS FROM ORDINARY OPERATIONS</b>	<u>514,580</u>	<u>577,921</u>	<u>145,328</u>	<u>199,951</u>	<u>796,760</u>
<b>FINANCIAL EXPENSES (INCOME), net</b>	(2,492)	63,174	55,845	18,681	101,520
<b>OTHER EXPENSES, see note 5</b>	<u>21,145</u>	<u>          </u>	<u>21,145</u>	<u>          </u>	<u>          </u>
<b>LOSS FOR THE PERIOD</b>	<u><u>533,233</u></u>	<u><u>641,095</u></u>	<u><u>222,318</u></u>	<u><u>218,632</u></u>	<u><u>898,280</u></u>

\* Reclassified.

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

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

## CONDENSED STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY

FOR THE 9 AND 3 MONTH PERIODS ENDED SEPTEMBER 30, 2002

IN SEPTEMBER 2002 ADJUSTED NIS

	<b>Share capital and premium</b>	<b>Accumulated deficit</b>	<b>Total</b>
	<b>In thousands</b>		
<b>BALANCE AT JANUARY 1, 2002</b> (audited)	11	(1,578,481)	(1,578,470)
<b>CHANGES DURING THE 9 MONTHS ENDED SEPTEMBER 30, 2002</b> (unaudited) - loss		<u>(533,233)</u>	<u>(533,233)</u>
<b>BALANCE AT SEPTEMBER 30, 2002</b> (unaudited)	<u>11</u>	<u>(2,111,714)</u>	<u>(2,111,703)</u>
<b>BALANCE AT JANUARY 1, 2001</b> (audited)	11	(680,201)	(680,190)
<b>CHANGES DURING THE 9 MONTHS ENDED SEPTEMBER 30, 2001</b> (unaudited) - loss		<u>(641,095)</u>	<u>(641,095)</u>
<b>BALANCE AT SEPTEMBER 30, 2001</b> (unaudited)	<u>11</u>	<u>(1,321,296)</u>	<u>(1,321,285)</u>
<b>BALANCE AT JULY 1, 2002</b> (unaudited)	11	(1,889,396)	(1,889,385)
<b>CHANGES DURING THE 3 MONTHS ENDED SEPTEMBER 30, 2002</b> (unaudited) - loss		<u>(222,318)</u>	<u>(222,318)</u>
<b>BALANCE AT SEPTEMBER 30, 2002</b> (unaudited)	<u>11</u>	<u>(2,111,714)</u>	<u>(2,111,703)</u>
<b>BALANCE AT JULY 1, 2001</b> (unaudited)	11	(1,102,664)	(1,102,653)
<b>CHANGES DURING THE 3 MONTHS ENDED SEPTEMBER 30, 2001</b> (unaudited) - loss		<u>(218,632)</u>	<u>(218,632)</u>
<b>BALANCE AT SEPTEMBER 30, 2001</b> (unaudited)	<u>11</u>	<u>(1,321,296)</u>	<u>(1,321,285)</u>
<b>BALANCE AT JANUARY 1, 2001</b> (audited)	11	(680,201)	(680,190)
<b>CHANGES DURING THE YEAR ENDED DECEMBER 31, 2001</b> (audited) - loss		<u>(898,280)</u>	<u>(898,280)</u>
<b>BALANCE AT DECEMBER 31, 2001</b> (audited)	<u>11</u>	<u>(1,578,481)</u>	<u>(1,578,470)</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 9 AND 3 MONTH PERIODS ENDED SEPTEMBER 30, 2002**  
**IN SEPTEMBER 2002 ADJUSTED NIS**

	<b>9 months ended September 30,</b>		<b>3 months ended September 30,</b>		<b>Year ended December 31,</b>
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>	<b>2001</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>I n t h o u s a n d s</b>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Loss for the period	(533,233)	(641,095)	(222,318)	(218,632)	(898,280)
Adjustments required to reflect the cash flows from operating activities (a)	<u>526,847</u>	<u>*81,450</u>	<u>258,300</u>	<u>*78,196</u>	<u>*285,671</u>
Net cash provided by (used in) operating activities	<u>(6,386)</u>	<u>(559,645)</u>	<u>35,982</u>	<u>(140,436)</u>	<u>(612,609)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES, see (b) below:</b>					
Purchase of fixed assets	(405,251)	(369,172)	(113,807)	(142,365)	(546,177)
Purchase of broadcasting rights	<u>(58,803)</u>	<u>*(88,079)</u>	<u>(34,569)</u>	<u>*(33,564)</u>	<u>*(99,900)</u>
Net cash used in investing activities	<u>(464,054)</u>	<u>(457,251)</u>	<u>(148,376)</u>	<u>(175,929)</u>	<u>(646,077)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Receipt of long-term loans from shareholders	341,992	734,410	72,283	244,135	848,487
Short-term bank credit - net	<u>132,365</u>	<u>282,028</u>	<u>39,811</u>	<u>72,186</u>	<u>409,763</u>
Net cash provided by financing activities	<u>474,357</u>	<u>1,016,438</u>	<u>112,094</u>	<u>316,321</u>	<u>1,258,250</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	3,917	(458)	(300)	(44)	(436)
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>22</u>	<u>458</u>	<u>4,239</u>	<u>44</u>	<u>458</u>
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u><u>3,939</u></u>	<u><u>-,-</u></u>	<u><u>3,939</u></u>	<u><u>-,-</u></u>	<u><u>22</u></u>

\* Reclassified.

**DBS SATELLITE SERVICES (1998) LTD.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**FOR THE 9 AND 3 MONTH PERIODS ENDED SEPTEMBER 30, 2002**  
**IN SEPTEMBER 2002 ADJUSTED NIS**

	<u>9 months ended</u> <u>September 30,</u>		<u>3 months ended</u> <u>September 30,</u>		<u>Year ended</u> <u>December 31,</u>
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		<u>(Audited)</u>
	<b>I n t h o u s a n d s</b>				
<b>(a) Adjustments required to reflect the cash flows from operating activities:</b>					
Income and expenses not involving cash flows:					
Utilized rights	101,918	47,966	33,972	21,602	79,602
Depreciation and amortization	242,872	143,588	85,007	56,779	218,926
Impairment provision in respect of installation equipment	21,145		21,145		
Liability for employee rights upon retirement, net	1,389		1,462		1,231
Linkage differences on (erosion of) principal of long-term shareholders' loans	<u>(3,758)</u>	<u>(3,695)</u>	<u>18,457</u>	<u>1,585</u>	<u>1,102</u>
	363,566	187,859	160,043	79,966	300,861
Changes in operating asset and liability items:					
Decrease (increase) in accounts receivable	(29,918)	21,176	(19,350)	8,266	(42,076)
Increase (decrease) in accounts payable and accruals:					
Trade	149,303	*(118,721)	97,042	*(15,832)	*(15,402)
Customer deposits, net	31,805	13,597	6,091	9,606	27,167
Other	<u>12,091</u>	<u>(22,461)</u>	<u>14,474</u>	<u>(3,810)</u>	<u>15,121</u>
	<u>163,281</u>	<u>(106,409)</u>	<u>98,257</u>	<u>(1,770)</u>	<u>(15,190)</u>
	<u>526,847</u>	<u>81,450</u>	<u>258,300</u>	<u>78,196</u>	<u>285,671</u>
<b>(b) Supplementary information on investing activities not involving cash flows -</b>					
Increase (decrease) in suppliers' credit in respect of purchase of fixed assets	<u>(105,832)</u>	<u>29,939</u>	<u>(48,539)</u>	<u>(10,886)</u>	<u>33,109</u>
Increase (decrease) in suppliers' credit in respect of purchase of broadcasting rights	<u>3,947</u>	<u>*3,501</u>	<u>(7,512)</u>	<u>*(2,131)</u>	<u>*(19,117)</u>

\* 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 SEPTEMBER 30, 2002

**1. General**

The condensed interim financial statements as of September 30, 2002 and for the nine 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 898 million, and the loss for the nine months ended September 30, 2002 amounted to approximately adjusted NIS 533 million. The negative cash flow from operating activities amounted to approximately adjusted NIS 613 million and approximately adjusted NIS 6 million in 2001 and in the nine month period ended September 30, 2002, respectively. As a result of these losses, the working capital deficiency as of September 30, 2002 aggregated approximately adjusted NIS 1,615 million.
- b) On May 23, 2001, the Company entered into a financing agreement (hereafter - the financing agreement) with certain banks (hereafter - the banks). The financing agreement stipulates, inter alia, 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 (continued)

(Unaudited)

AS OF SEPTEMBER 30, 2002

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

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. This agreement in principle has been approved by the parties, see also (c) below. The aforementioned financing agreement has not yet been signed and is conditional upon, among other matters, formulating documents and the pertinent approvals. Between October 1, 2002 and the date of approval of these financial statements, the banks have provided the Company with some \$ 6 million on the basis of the agreement in principle.

The parties have also been discussing an additional financing program. Further to these discussions, the additional financing program has been approved in principle by the authorized bodies of one of the banks. As agreed with the other banks, discussions are to be held with them in order to obtain their agreement to the additional financing program.

As of the date of approval of these financial statements and prior to finalizing the signature of the financing agreement with the banks, the shareholders are continuing to provide the Company with additional credit facilities, over and above those required pursuant to the agreement in principle with the banks, as referred to above.

- c) 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). 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 September 30, 2002, the balance of the shareholders' loans granted by this shareholder amounted to NIS 1,044 million. The principal shareholder is taking steps to obtain approval from the committee for the increase in his exposure.

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

## NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

AS OF SEPTEMBER 30, 2002

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

- 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, including the approval of the Committee referred to in (c) above.

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 including formulating the additional financing program referred to above, and in an arrangement for the financing required by the Company in the coming year.

**4. Broadcasting rights:**

	<b>September 30, 2002</b>	<b>December 31, 2001</b>
	<b>Adjusted NIS in thousands</b>	
Advances to content providers	40,647	51,296
Broadcasting rights	<u>375,185</u>	<u>301,786</u>
	415,832	353,082
L e s s - fully utilized rights	<u>99,632</u>	<u>46,488</u>
	<u>316,200</u>	<u>306,594</u>

5. The amount included under "other expenses" in the reporting periods is in respect of an impairment provision made for installation equipment.
6. In October 2001, the Israeli Accounting Standards Board ("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. On November 10, 2002, the professional committee of the IASB resolved to postpone, by one year, the implementation of the above standard. Accordingly, an exposure draft for a new standard (No. 17) was issued on November 17, 2002 that, when approved, will postpone the implementation of Standard No. 12 to January 1, 2004. Until the date of the implementation of Standard No. 12, the company will continue preparing inflation-adjusted financial statements in accordance with the pronouncements of the Institute of Certified Public Accountants in Israel.
7. In August 2002, the Israel Accounting Standards Board issued Israel Accounting Standard No. 14, "Financial Reporting for Interim Periods", which is to supersede Opinion No. 43 of the Institute of Certified Public Accountants in Israel on this issue. Standard 14 is to be applied to interim financial statements commencing in 2003. The Company is to adopt the new standard forthwith. The Company is presently examining what affect, if any, application of the new standard will have on its financial statements.

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

## NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

AS OF SEPTEMBER 30, 2002

8. 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>
Nine months ended September 30:		
2002	10.30%	6.99%
2001	7.77%	2.01%
Three months ended September 30:		
2002	2.14%	0.64%
2001	4.56%	0.89%
Year ended December 31, 2001	9.30%	1.40%

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