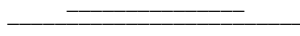


DBS SATELLITE SERVICES (1998) LTD.
CONDENSED INTERIM FINANCIAL STATEMENTS
AS OF MARCH 31, 2003
(Unaudited)

DBS SATELLITE SERVICES (1998) LTD.
CONDENSED INTERIM FINANCIAL STATEMENTS
AS OF MARCH 31, 2003
(Unaudited)

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May 20, 2003

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, 2003

At your request, we have reviewed the condensed interim balance sheet of DBS Satellite Services (1998) Ltd. (hereafter - the Company) as of March 31, 2003 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 and the financing agreements with banks and with the Company's shareholders, including the addendum to the financing agreement, which has not yet been signed to date of these financial statements. As explained in the abovementioned note, the Company's activity depends on the formulation of an addendum to the financing agreement, as described in the said note, and on the receipt of additional loans from shareholders.

Sincerely yours,

DBS SATELLITE SERVICES (1998) LTD.

CONDENSED BALANCE SHEET

AS OF MARCH 31, 2003

IN ADJUSTED NIS

	March 31		December 31,
	2003	2002	2002
	(Unaudited)		(Audited)
	In thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	2,008	401	*1,693
Short-term deposit	2,792		*2,864
Accounts receivable:			
Trade	101,113	74,518	107,095
Other	4,614	10,780	4,883
T o t a l current assets	<u>110,527</u>	<u>85,699</u>	<u>116,535</u>
BROADCASTING RIGHTS:			
Cost	295,610	285,027	253,856
Less - utilized rights	132,090	61,601	113,218
	<u>163,520</u>	<u>223,426</u>	<u>140,638</u>
FIXED ASSETS:			
Cost	2,027,958	1,714,548	1,966,061
Less - accumulated depreciation (see note 5)	711,211	345,001	617,942
	<u>1,316,747</u>	<u>1,369,547</u>	<u>1,348,119</u>
LICENSE FEES - ADVANCE ON ACCOUNT OF ROYALTIES			
		23,203	6,535
	<u>1,590,794</u>	<u>1,701,875</u>	<u>1,611,827</u>
Liabilities, net of capital deficiency			
CURRENT LIABILITIES:			
Accounts payables and accruals:			
Trade	515,966	617,949	542,451
Other	78,253	35,712	79,480
T o t a l current liabilities	594,219	653,661	621,931
BANK CREDIT	1,190,934	978,298	1,134,366
	<u>1,785,153</u>	<u>1,631,959</u>	<u>1,756,297</u>
LONG-TERM LIABILITIES:			
Liability for employee rights upon retirement	3,343	1,207	2,862
Customer deposits	39,510	31,146	42,388
Other liabilities	30,358	24,870	14,448
T o t a l long-term liabilities	73,211	57,223	59,698
SHAREHOLDERS' LOANS	2,167,483	1,771,227	2,107,688
T o t a l liabilities	<u>4,025,847</u>	<u>3,460,409</u>	<u>3,923,683</u>
CAPITAL DEFICIENCY	<u>(2,435,053)</u>	<u>(1,758,534)</u>	<u>(2,311,856)</u>
	<u>1,590,794</u>	<u>1,701,875</u>	<u>1,611,827</u>

* Reclassified

Katriel Moriah
Deputy Financial Officer

Shlomo Liran
Chief Executive Officer

David Brodet
Chairman of the
Board of Directors

Date of approval of the financial statements: May 20, 2003.

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, 2003
IN ADJUSTED NIS

	3 months ended		Year ended
	March 31		December 31,
	2003	2002	2002
	(Unaudited)		(Audited)
	In thousands		
REVENUES	199,202	137,788	677,824
OPERATING EXPENSES	<u>254,606</u>	<u>260,321</u>	<u>1,098,243</u>
GROSS LOSS	<u>55,404</u>	<u>122,533</u>	<u>420,419</u>
SELLING, MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES:			
Selling and marketing	25,575	38,538	120,288
General and administrative	<u>24,794</u>	<u>30,929</u>	<u>117,944</u>
LOSS FROM ORDINARY OPERATIONS	105,773	192,000	658,651
FINANCIAL EXPENSES (INCOME), net	14,743	(16,942)	48,459
OTHER EXPENSES (see note 6)	<u>2,681</u>	<u> </u>	<u>21,278</u>
LOSS FOR THE PERIOD	<u><u>123,197</u></u>	<u><u>175,057</u></u>	<u><u>728,388</u></u>

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, 2003
IN ADJUSTED NIS

	Share capital and premium	Accumulated deficit	Total
	In thousands		
BALANCE AS OF JANUARY 1, 2003 (audited)	20	(2,311,876)	(2,311,856)
CHANGES DURING THE 3 MONTHS ENDED MARCH 31, 2003 (unaudited) - loss		<u>(123,197)</u>	<u>(123,197)</u>
BALANCE AS OF MARCH 31, 2003 (unaudited)	<u>20</u>	<u>(2,435,073)</u>	<u>(2,435,053)</u>
BALANCE AS OF 1 JANUARY, 2002 (audited)	11	(1,583,488)	(1,583,477)
CHANGES DURING THE 3 MONTHS ENDED MARCH 31, 2002 (unaudited) - loss		<u>(175,057)</u>	<u>(175,057)</u>
BALANCE AS OF MARCH 31, 2002 (unaudited)	<u>11</u>	<u>(1,758,545)</u>	<u>(1,758,534)</u>
BALANCE AS OF JANUARY 1, 2002 (audited)	11	(1,583,488)	(1,583,477)
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2002 (audited):			
Issuance of share capital	9		9
Loss		<u>(728,388)</u>	<u>(728,388)</u>
BALANCE AS OF DECEMBER 31, 2002 (audited)	<u>20</u>	<u>(2,311,876)</u>	<u>(2,311,856)</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, 2003
IN ADJUSTED NIS

	3 months ended		Year ended
	March 31		December 31,
	2003	2002	2002
	(Unaudited)		(Audited)
	In thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss for the period	(123,197)	(175,057)	(728,388)
Adjustments required to reflect the cash flows from operating activities (a)	<u>128,735</u>	<u>174,836</u>	<u>657,639</u>
Net cash provided by (used in) operating activities	<u>5,538</u>	<u>(221)</u>	<u>(70,749)</u>
CASH FLOWS FROM INVESTING ACTIVITIES,			
see (b) below:			
Short-term deposit			(2,864)
Payments on account of the purchase of fixed assets, see (b) below	(80,968)	(119,150)	(485,624)
Payments on account of the purchase of broadcasting rights	(51,641)	(8,496)	(50,171)
Proceeds from sale of fixed assets	<u>3,372</u>	<u> </u>	<u>10,935</u>
Net cash used in investing activities	<u>(129,237)</u>	<u>(127,646)</u>	<u>(527,724)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipt of long-term loans from shareholders	67,446	97,106	412,937
Short-term bank credit - net	<u>56,568</u>	<u>31,140</u>	<u>187,207</u>
Net cash provided by financing activities	<u>124,014</u>	<u>128,246</u>	<u>600,144</u>
INCREASE IN CASH AND CASH EQUIVALENTS	<u>315</u>	<u>379</u>	<u>1,671</u>
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>1,693</u>	<u>22</u>	<u>22</u>
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>2,008</u></u>	<u><u>401</u></u>	<u><u>1,693</u></u>

DBS SATELLITE SERVICES (1998) LTD.
CONDENSED STATEMENT OF CASH FLOWS
FOR THE 3 MONTH PERIOD ENDED 31 MARCH, 2003
IN ADJUSTED NIS

	3 months ended		Year ended
	March 31		December 31,
	2003	2002	2002
	(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	100,053	72,593	351,159
Utilized broadcasting rights	32,606	29,396	150,551
Depreciation of installation equipment			21,212
Liability for employee rights upon retirement, net	481	(28)	1,627
Linkage differences on principal of other long-term liability	608	(28)	1,545
Linkage differences on (erosion of) principal of long-term shareholders' loans	(7,651)	(9,328)	11,300
Other	(115)		998
	125,982	92,633	538,392
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	3,202	(13,377)	(36,116)
Other	269	21,234	27,143
Increase (decrease) in accounts payable and accruals:			
Trade	3,387	60,311	60,032
Customer deposits, net	(2,696)	13,772	30,106
Other	(1,409)	263	38,082
	2,753	82,203	119,247
	128,735	174,836	657,639
(b) Supplementary information on investment activities not involving cash flows			
1) Decrease in suppliers' credit for purchase of fixed assets	(18,417)	(8,113)	(93,844)
Increase in suppliers' credit for purchase of broadcasting rights	3,847	3,914	2,461
2) In the second half of 2002, the Company sold its customers digital satellite decoders in installments, as part of a one-time marketing campaign. The payments received in 2002 and in the 3 month period ended March 31, 2003 were included under investing activities for the related period. The remaining balance, approximately adjusted NIS 7 million, will be included in the following periods.			

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

DBS SATELLITE SERVICES (1998) LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS
AS OF MARCH 31, 2003
(Unaudited)

1. General

The interim financial statements as of March 31, 2003 and for the three month period then ended (hereafter - the interim statements) were drawn up in condensed form, in accordance with Accounting Standard No. 14 of the Israel Accounting Standards Board (hereafter - the IASB) and in accordance with the Securities (Periodic and Immediate Reports) Regulations, 1970. Standard 14, which supersedes Opinion 43 of the Institute of Certified Public Accountants in Israel, is applicable to financial statements for periods commencing on January 1, 2003 and thereafter. The application of the above Standard at the beginning of 2002 would not have affected the data presented in the comparative figures.

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) Since the commencement of its activities, the Company has incurred significant losses and negative cash flows. The loss for 2002 and for the 3 month period ended March 31, 2003 amounted to approximately adjusted NIS 728 million and adjusted NIS 123 million, respectively. As a result of these losses, the Company's capital deficiency and working capital deficiency as of March 31, 2003 amounted to approximately adjusted NIS 2,435 million and adjusted NIS 1,675 million, respectively. The working capital deficiency includes approximately adjusted NIS 1,190 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).

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

AS OF MARCH 31, 2003

(Unaudited)

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

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 financing 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 conditional, inter alia, upon the Company's meeting certain financial and operating conditions, as stipulated in the said agreement. In addition, discussions have been held between the parties regarding the expansion of the interim facility (hereafter - the addendum to the financing agreement). To date of approval of these financial statements, the shareholders and the Banks have transferred the Company approximately U.S. \$ 36 million and U.S. \$ 24 million, respectively, which constitute the parties' full share in the interim facility.

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.

A financial review performed by the Banks during the reported period indicates that the Company's overall financing requirements 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). Nevertheless, to date of approval of these financial statements the addendum is yet to be signed. In addition, some of the terms stipulated under the financing agreement and the interim facility have not been fulfilled. Accordingly, the credit received from the Banks was included under current liabilities.

To date of approval of these financial statements, the authorized parties of the Banks gave their approval in principle to the addendum to the financing agreement. At the same time, discussions are held between the parties regarding the details of the addendum to the financing agreement. The Company's principal shareholders have announced the banks their intention to invest, concurrent with the Banks, their proportionate share in the addendum to the financing agreement. The principal shareholders continue to provide additional credit to the Company in excess of the interim facility, on account of the addendum to the financing agreement. To date of approval of these financial statements, the amount of credit provided by the shareholders' to the Company on account of the addendum to the financing agreement is approximately \$ 2.5 million.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

AS OF MARCH 31, 2003

(Unaudited)

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

- 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 formulation 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.

4. Contingent liabilities:

- a) 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.

- b) On March 25, 2003, an application was filed with the District court for the approval as a class action of a claim with respect to the imposition of the cost of the electricity required for the operation of satellite dishes on the tenants of the building in which the dish was installed. The group of claimants includes all the buildings in which satellite dishes had been installed.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

AS OF MARCH 31, 2003

(Unaudited)

4. Contingent liabilities (continued):

The claim is for declaratory relief, requiring the Company to pay for the electricity usage of the devices installed by the Company and/or on its behalf on various premises, and to reimburse the claimants all the monies paid by them in respect of the electricity usage of the Company's devices and to compensate and/or indemnify the claimants in respect of such amounts. The estimated amount of damages the reimbursement of which is demanded is NIS 25 million.

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.

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

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.

- d) In a series of letters recently addressed to the Company, Israel Aircraft Industries Ltd. (hereafter - IAI), through its representative, raised claims for the Company's alleged breach of the agreements that the Company entered into with IAI and Spacecom Satellite Communications Ltd. (hereafter - SSC). Based on said claims, IAI threatens to start a process on May 25, 2003, under which IAI will cease making feeds from the Amos 1 Satellite available to the Company. The Company rejects the claims of IAI as to the content of the agreements between the Company, IAI and SSC. Furthermore, the Company repudiates IAI's right to take such action.

- 5.** 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 increased the depreciation expense for the reported period by approximately adjusted NIS 8.5 million.

DBS SATELLITE SERVICES (1998) LTD.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

AS OF MARCH 31, 2003

(Unaudited)

6. Composition of other expenses:

	3 months ended March 31, 2003	Year ended December 31, 2002
	(Unaudited)	(Audited)
	In thousands	
Advances on account of disallowed expenses in respect of previous years	2,681	
Provision for impairment of installation equipment		21,212
Other		66
	<u>2,681</u>	<u>21,278</u>

7. As prescribed by Accounting Standards No. 12 and 17 of the IASB, the adjustment of financial statements will be discontinued as from 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. Accounting Standard No. 13, which would come into effect concurrently with the abovementioned standards, will supersede Clarifications Nos. 8 and 9 to Opinion 36.

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

	Exchange rate of the dollar	Consumer price index
Three months ended March 31:		
2003	(1.06%)	0.8%
2002	5.7%	2.36%
Year ended December 31, 2002	7.3%	6.5%