ABB LTD
Form 6-K
April 24, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE
SECURITIES EXCHANGE ACT OF 1934**

For the month of April 2008

Commission File Number 001-16429

ABB Ltd

(Translation of registrant s name into English)

P.O. Box 1831, Affolternstrasse 44, CH-8050, Zurich, Switzerland

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Note:

Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indication by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Note:

Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant s home country), or under the rules of the home country exchange on which the registrant s securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant s security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- .

This Form 6-K consists of the following:

1. Press release issued by ABB Ltd dated April 24, 2008.

2. Announcements regarding transactions in ABB Ltd s securities made by the directors or members of the Executive Committee.

The information provided by Item I above is deemed filed for all purposes under the Securities Exchange Act of 1934, including by reference in the Registration Statement on Form S-8 (Registration No. 333-129271).

ABB Group Q1 results 2008

Presss Release

ABB net income up 87% on energy efficiency and infrastructure demand

- Orders and revenues grow at a double-digit pace
- EBIT hits record $1.4 billion, EBIT margin at 17.0 percent
- Net income reaches $1 billion in the quarter, EPS up 76%

Zurich, Switzerland, April 24, 2008 ABB s first-quarter net income reached $1 billion, an increase of 87 percent compared to the same quarter in 2007, as global demand for more reliable power and improved industrial efficiency continued to grow and the company s efforts to improve operational performance generated further benefits.

Earnings before interest and taxes (EBIT) reached a record $1.4 billion, up 65 percent from a year earlier. The EBIT margin increased to 17.0 percent from 13.2 percent in the first quarter of 2007. Approximately one percentage point of the EBIT margin in the first quarter resulted from gains on the mark-to-market treatment of hedging transactions. The gains were related mainly to the sharp decline in the value of the U.S. dollar and increases in commodity prices during the quarter.

Orders, revenues and EBIT increased in all divisions as market demand remained robust in all regions. Utilities continued to invest in new and refurbished power infrastructure while industrial customers, especially in the metals, minerals and marine sectors, further expanded capacity on the back of high commodity prices. Industrial demand for more energy efficient technologies also continued to be a key growth driver.

ABB experienced a very good start in 2008 across all businesses and regions, said Michel Demaré, ABB s Chief Executive Officer and Chief Financial Officer. Demand from utilities and most of our major industrial markets remained strong around the world, especially in emerging economies, but also in the U.S. Customers continued to invest in areas where we are market and technology leaders power infrastructure, energy efficiency and productivity.

These excellent results also reflect our continuing strong operational performance, Demaré added. Lower cost sourcing, footprint optimization, better project execution and risk management, and more efficient capacity utilization all contributed to our improved results.

Change

2008 Q1 key figures	Q1 08	Q1 07(1)	US$	Local
$ millions unless otherwise indicated				
Orders	10,943	8,565	28%	16%
Order backlog (end March)	*26,820*	*18,371*	*46%*	*30%*
Revenues	7,956	6,188	29%	17%
EBIT	1,353	819	65%	
as % of revenues	17.0%	13.2%		
Net income	1,003	537	87%	
Basic net income per share ($)	0.44	0.25	76%	
Cash flow from operating activities	464	303		

(1) Adjusted to reflect the reclassification of activities to discontinued operations

Summary of Q1 2008 results

Orders received and revenues

The positive market environment experienced in 2007 continued into the first quarter of 2008. Order growth continued in all divisions, led by Process Automation, where metals, minerals and marine customers in all regions built new capacity or upgraded existing capacity to take advantage of high commodity prices and sustained demand. Automation Products and Power Products also reported strong order growth, especially in emerging economies, reflecting favorable demand across most industrial markets and ongoing investments by power utilities in new and upgraded infrastructure. Order growth in the Power Systems division was more modest, primarily the result of fewer large orders compared to the strong first quarter in 2007. Robotics orders also grew strongly in the quarter on higher demand from both general industry and the automotive market.

Regionally, order growth was strongest in Asia (up 42 percent; 30 percent in local currencies) as demand continued to grow across most market sectors. All divisions except Robotics recorded a strong double-digit order improvement in the region. Orders grew 19 percent in the Middle East and Africa (local currencies: 13 percent), and were especially strong in Power Products and Process Automation, reflecting in large part new investments to expand the metals and mining sector in the region. In the Americas, orders grew 14 percent (local currencies: 7 percent) and were higher in all divisions except Power Systems, where orders decreased in Canada and Brazil. The Automation Products, Process Automation and Robotics divisions all saw orders grow by at least 20 percent in the U.S. compared to the first quarter a year earlier as industrial markets remained favorable. In Europe, orders were higher in all divisions and grew 27 percent (local currencies: 13 percent) overall. The Power Systems, Process Automation and Robotics divisions showed the largest gains as customer investments increased for electrical equipment in power generation, oil and gas and minerals development, and general industrial automation, respectively.

The volume of large orders (more than $15 million) rose 55 percent (39 percent in local currencies) in the first quarter to $1.7 billion. Base orders (less than $15 million) were up 24 percent (13 percent in local currencies).

Revenues continued to grow strongly, reflecting execution of the large order backlog as well as increased demand in the quarter. The revenue improvement also reflects price increases implemented to offset higher raw material costs.

The order backlog at the end of March amounted to $26.8 billion, $8.4 billion higher (46 percent; 30 percent in local currencies) than at the end of the first quarter of 2007, and $4 billion higher than at the end of 2007 (up 18 percent; 13 percent in local currencies).

Earnings before interest and taxes

All divisions improved their EBIT and EBIT margins in the first quarter of 2008 as the result of volume growth, high capacity utilization, ongoing initiatives to de-bottleneck production facilities, more efficient supply management and greater sourcing of components from emerging economies. EBIT was further supported by the continuing favorable pricing environment in the quarter, especially in power infrastructure markets. EBIT results were also helped by an approximately $85-million positive impact from the mark-to-market treatment of hedging transactions which did not qualify for hedge accounting.

4

Net income

Net income for the quarter benefited from ABB s strong cash position and low debt levels, which resulted in a positive finance net of $57 million compared to a net expense of $26 million in the same quarter of 2007. A favorable tax court ruling in northern Europe during the quarter contributed a further $25 million in interest income and $40 million in taxes to net income. The tax ruling also contributed to a reduction in the company s tax rate to 25 percent from 28 percent in the same quarter in 2007.

Balance sheet and cash flow

Net cash at the end of the first quarter was $5.6 billion compared to $5.4 billion at the end of the previous quarter. The company purchased 9.4 million ABB shares in the amount of approximately $240 million in line with the previously announced Sfr. 2.2-billion share buy-back program, resulting in a cash outflow in the first quarter of approximately $180 million. The remaining $60 million is withholding tax to be remitted in the second quarter of 2008 (please refer to Appendix I for more information).

Cash flow from operations increased by approximately $160 million compared to the first quarter of 2007. Net working capital increased, particularly in the two product divisions, reflecting higher capacity utilization and the need to execute the large order backlog. Net working capital as a share of revenues increased to 12.3 percent in the first quarter from 12.1 percent in the same quarter a year ago, mainly the result of higher inventories to execute orders received in recent quarters that have not yet flowed through to revenues, as well as higher receivables. Also included in cash flow from operations was a planned payment to asbestos trusts of $25 million.

Compliance

ABB continues to cooperate with the U.S. Department of Justice and the U.S. Securities and Exchange Commission regarding various suspect payments that have occurred across several years. ABB also continues to cooperate with various anti-trust authorities, including the European Commission, regarding certain allegedly anti-competitive practices. As already communicated, the outcome of these matters as well as previously disclosed matters could have a material impact on the company s consolidated operating results, cash flows and financial position.

Management changes

On February 13, 2008, ABB announced the departure of former CEO Fred Kindle due to irreconcilable differences about how to lead the company. Michel Demaré was appointed interim CEO in addition to his role as Chief Financial Officer.

Outlook

The global market for power transmission and distribution infrastructure is expected to remain buoyant over the rest of 2008. Demand is forecast to be driven in Europe and North America by the need for equipment replacement, improved grid reliability and efficiency and further grid interconnections. In Asia and the Middle East and Africa, demand is expected to be driven by the development of new power infrastructure.

The industrial automation market is expected to remain attractive in the emerging economies, driven by high commodity prices and the need for greater energy efficiency and process quality. In the mature economies, some countries or early-cycle sectors may see a dampening of demand related to slower overall economic growth, but the outlook for raw materials processing industries remains strong.

Based on these assumptions, and barring an extended recession in the global economy, ABB expects growth rates in 2008 of about 15-20 percent for its power-related activities and about 10 percent in its automation activities.

Divisional performance Q1 2008

Power Products division	**Q1 08**	**Q1 07(1)**	**Change US$**	**Change Local**
$ millions unless otherwise indicated				
Orders	4,011	3,184	*26%*	*15%*
Order backlog (end March)	*8,670*	*6,042*	*43%*	*29%*
Revenues	2,622	2,033	*29%*	*18%*
EBIT	534	313	*71%*	
as % of revenues	20.4%	15.4%		
Cash flow from operating activities	194	87		

(1) Adjusted to reflect the reclassification of activities to discontinued operations

Orders grew strongly in the first quarter and were up in all businesses and regions as power utilities continued to invest in new and refurbished grid infrastructure in all major markets. Order growth was strongest in the emerging economies of Asia and the Middle East. Orders were slightly higher in the Americas due to a modest increase in the U.S. In Europe, orders in Italy, Russia and Turkey supported 20-percent order growth (local currencies: 6 percent).

Revenues grew significantly in all businesses on increased productivity, execution of the order backlog and price increases in some product areas to compensate for higher raw material costs. As in the first quarter of 2007, there were no significant expenses in the first quarter this year related to the transformer consolidation program announced in 2005.

EBIT and EBIT margin rose, mainly reflecting the improved cost efficiency of higher factory loadings, continuing operational improvements and a supportive pricing environment.

Power Systems division	**Q1 08**	**Q1 07**	**Change US$**	**Change Local**
$ millions unless otherwise indicated				
Orders	2,048	1,797	*14%*	*4%*
Order backlog (end March)	*8,930*	*6,357*	*40%*	*25%*
Revenues	1,673	1,154	*45%*	*31%*
EBIT	175	80	*119%*	
as % of revenues	10.5%	6.9%		
Cash flow from operating activities	74	17		

Orders continued to increase in a favorable market during the first quarter, as higher base orders more than offset a reduction in large orders due mainly to the timing of contract awards. Orders for power plant electrification in the Netherlands and customer investments to strengthen local power grids in India contributed to strong order growth in Europe and Asia, respectively. Orders were lower in the Americas as the result of a decrease in Canada and Brazil and in the Middle East and Africa.

High revenue growth in the quarter reflected the execution of the strong order backlog. EBIT and EBIT margin increased on higher revenues, a tight focus on selling, general and administrative expenses and continued attention to project execution.

Automation Products division		Q1 08	Q1 07	Change US$	Local
$ millions unless otherwise indicated					
Financial expenses, net	19c	(52,088)		(48,089)	(83,958)
Other income, net	19d	3,053		278,535	80,996
Income (loss) before taxes on income		(178,886)		131,765	(10,781)
Taxes on income	17	(434)		108,851	35,576
Income (loss) from operations of the Company and its subsidiaries		(178,452)		22,914	(46,357)
Equity in earnings (losses) of affiliates, net	5	(78,822)		10,910	40,907
Net income (loss) for the year		(257,274)		33,824	(5,450)
Earnings (loss) per Ordinary share - NIS	2p	(8.92)		1.17	(0.19)
Weighted average number of shares outstanding (in thousands)	2p	28,834		28,860	29,347

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

-7-

MATAV - CABLE SYSTEMS MEDIA LTD.

STATEMENTS OF OPERATIONS - THE COMPANY

Adjusted to the NIS of December 2003

	Note	Year ended December 31, 2001	2002	2003
		Adjusted NIS (In thousands, except earning (loss) per ordinary share and ADS)		
Revenues	2j	337,583	347,890	367,326
Operating expenses:				
Depreciation		103,026	116,151	116,878
Other operating expenses	19a	248,680	229,917	207,205

	Note	Year ended December 31,		
Total operating expenses		351,706	346,068	324,083
Gross profit (loss)		(14,123)	1,822	43,243
Selling, marketing, general and administrative expenses:	19b			
Selling and marketing		41,913	29,124	26,878
General and administrative		39,960	29,899	28,288
		81,873	59,023	55,166
Operating loss		(95,996)	(57,201)	(11,923)
Financial expenses, net	19c	(36,826)	(44,125)	(79,387)
Other income, net	19d	3,121	286,574	84,941
Income (loss) before taxes on income		(129,701)	185,248	(6,369)
Taxes on income	17	(2,305)	108,851	35,496
Income (loss) from operations of the Company		(127,396)	76,397	(41,865)
Equity in earnings (losses) of affiliates and subsidiaries, net	5	(129,878)	(42,573)	36,415
Net income (loss) for the year		(257,274)	33,824	(5,450)
Earnings (loss) per Ordinary share - NIS	2p	(8.92)	1.17	(0.19)
Weighted average number of shares outstanding (in thousands)	2p	28,834	28,860	29,347

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

MATAV - CABLE SYSTEMS MEDIA LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

Adjusted to the NIS of December 2003

Share capital		Additional paid-in capital	Accumulated deficit	Cost of Company shares held by subsidiary	Total
Number of shares	Amount				
Adjusted NIS					

	Share capital		Additional paid-in capital	Accumulated deficit	Cost of Company shares held by subsidiary	
			(In thousands)			
Balance at January 1, 2001	28,785	47,403	335,100	(14,772)	-	367,731
Loss for the year	-	-	-	(257,274)	-	(257,274)
Exercise of stock options by employees and exercise of series 1 warrants (Note 16b and c)	49	52	2,037	-	-	2,089
Acquisition and exercise of Company Series 1 warrants by subsidiary	1,370	1,427	64,517	-	(66,205)	(261)
Balance at December 31, 2001	30,204	48,882	401,654	(272,046)	(66,205)	112,285
Loss for the year	-	-	-	33,824	-	33,824
Sale of Company shares held by subsidiary	-	-	(325)	-	1,288	963
Balance at December 31, 2002	30,204	48,882	401,329	(238,222)	(64,917)	147,072
Loss for the year	-	-	-	(5,450)	-	(5,450)
Sale of Company shares held by subsidiary	-	-	(25,791)	-	64,917	39,126
Balance at December 31, 2003	30,204	48,882	375,538	(243,672)	-	180,748

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

-9-

MATAV - CABLE SYSTEMS MEDIA LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of December 2003

	Year ended December 31,		
	2001	2002	2003
	Adjusted NIS		
	(In thousands)		
Cash flows from operating activities:			
Net income (loss) for the year	(257,274)	33,824	(5,450)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities (a)	276,013	*) (123,249)	101,503
Net cash provided by (used in) operating activities	18,739	(89,425)	96,053

	Year ended December 31,		
Cash flows from investing activities:			
Jointly controlled company, proportionally consolidated for the first time (b)	-	-	1,980
Purchase of fixed assets	(253,343)	(77,296)	(56,642)
Investment in affiliate	(3,518)	-	-
Repayment of long-term loans to affiliate	-	461	292
Deposit in trust, net	-	1,838	-
Investment in other assets	(1,066)	(2,924)	-
Proceeds from sale of investment in affiliate	20,651	*) 305,088	114,440
Proceeds from sale of fixed assets	2,012	1,243	1,700
Grant of long-term loan for purchase of fixed assets	-	-	(1,394)
Net cash provided by (used in) investing activities	(235,264)	228,410	60,376
Cash flows from financing activities:			
Exercise of stock options by employees and exercise of series 1 warrants, net of issuance costs	2,089	-	-
Acquisition and exercise of Company s series 1 warrants by a subsidiary	(261)	-	-
Sale of Company shares held by subsidiary	-	963	39,126
Sale of Company debentures by subsidiary	23,268	-	-
Receipt of long-term loans from banks and others	25,255	6,508	31,676
Repayment of long-term loans to banks and others	(2,139)	(129,430)	(73,522)
Redemption of debentures	(28,501)	(33,637)	(33,701)
Short-term bank credit, net	195,700	23,721	(89,664)
Net cash provided by (used in) financing activities	215,411	(131,875)	(126,085)
Increase (decrease) in cash and cash equivalents	(1,114)	7,110	30,344
Cash and cash equivalents at beginning of year	1,608	494	7,604
Cash and cash equivalents at end of year	494	7,604	37,948

*) Reclassified.

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

-10-

MATAV - CABLE SYSTEMS MEDIA LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of December 2003

Year ended December 31,

	Year ended December 31,		
	2001	2002	2003
	Adjusted NIS		
	(In thousands)		
(a) <u>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</u>			
Income and expenses not involving cash flows:			
Equity in losses (earnings) of affiliates, net	78,822	(10,910)	(40,907)
Depreciation and amortization	144,202	165,745	171,820
Deferred income (expenses) taxes, net	1,538	-	(15,630)
Accrued severance pay, net	(374)	(424)	1,685
Loss (gain) from:			
Changes in shareholding in affiliate (including from sale of shares of affiliates)	(5,145)	*) (295,933)	(96,662)
Write-off of investment in other company	-	8,962	-
Sale of fixed assets	2,704	44	1,428
Linkage differences on principal of debentures	375	692	355
Linkage differences on principal of long-term loans from banks and other, net	1,364	(390)	(3,647)
Erosion of deposit in trust	-	(1,838)	-
	223,486	(134,052)	18,442
Changes in operating asset and liability items:			
Decrease (increase) in trade receivables	(1,866)	3,642	9,718
Decrease (increase) in affiliate - current accounts	14,046	(5,194)	15,008
Decrease (increase) in other accounts receivable	2,873	(743)	(29)
Increase (decrease) in trade payables	19,822	(24,382)	(1,832)
Increase in other accounts payable	7,882	31,903	59,330
Increase in customers deposits for converters, net	9,770	5,577	866
	52,527	10,803	83,061
	276,013	(123,249)	101,503
(b) <u>Jointly controlled company, proportionally consolidated for the first time:</u>			
Net working capital (except for cash and cash equivalents	-	-	38,745
Fixed assets, net	-	-	(1,142)
Investment in limited partnerships	-	-	(2,057)

	Year ended December 31,		
Rights to broadcast movies and programs	-	-	(34,927)
Long-term liabilities	-	-	737
Investment in affiliate	-	-	624
	-	-	1,980

(c) Supplementary information on investing activity not involving cash flows:

Purchase of fixed assets against credit from suppliers	57,353	57,656	35,512

*) Reclassified.

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

MATAV - CABLE SYSTEMS MEDIA LTD.

STATEMENTS OF CASH FLOWS - THE COMPANY

Adjusted to the NIS of December 2003

	Year ended December 31,		
	2001	**2002**	**2003**
	Adjusted NIS		
	(In thousands)		
Cash flows from operating activities:			
Net income (loss) for the year	(257,274)	33,824	(5,450)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities (a)	230,362	*) (121,495)	42,870
Net cash provided by (used in) operating activities	(26,912)	(87,671)	37,420
Cash flows from investing activities:			
Purchase of fixed assets	(172,468)	(32,324)	(12,311)
Investment in subsidiaries and affiliate (long-term accounts and capital notes), net	(3,518)	(67,287)	-
Repayment of long-term accounts to subsidiaries, net	-	-	54,396
Investment in other assets	(1,066)	(186)	-
Proceeds from sale of investment in affiliate, net	20,656	*) 302,418	113,709
Proceeds from sale of fixed assets	1,842	1,036	1,077
Grant of long-term loan for purchase of fixed assets	-	-	(1,394)

	Year ended December 31,		
Net cash provided by (used in) investing activities	(154,554)	203,657	155,477
Cash flows from financing activities:			
Exercise of stock options by employees and exercise of series 1 warrants, net of issuance costs	2,089	-	-
Acquisition and exercise of Company s series 1 warrants by a subsidiary	(261)	-	-
Receipt of long-term loans from banks and others	25,261	6,508	31,676
Repayment of long-term loans to banks and others	(424)	(120,974)	(73,522)
Redemption of debentures	(33,675)	(33,637)	(33,701)
Short-term bank credit, net	187,955	36,718	(89,646)
Receipt of long-term loans from subsidiary	-	2,669	731
Net cash provided by (used in) financing activities	180,945	(108,716)	(164,462)
Increase (decrease) in cash and cash equivalents	(521)	7,270	28,435
Cash and cash equivalents at beginning of year	695	174	7,444
Cash and cash equivalents at end of year	174	7,444	35,879

*) Reclassified.

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

-12-

MATAV - CABLE SYSTEMS MEDIA LTD.

STATEMENTS OF CASH FLOWS - THE COMPANY

Adjusted to the NIS of December 2003

	Year ended December 31,		
	2001	2002	2003
	Adjusted NIS (In thousands)		

(a) Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:

Income and expenses not involving cash flows:

	Year ended December 31,		
Equity in losses (earnings) of affiliates and subsidiaries, net	129,878	42,573	(36,415)
Depreciation and amortization	103,515	118,480	126,350
Deferred income taxes, net	1,042	-	(15,630)
Accrued severance pay, net	(490)	(126)	1,109
Loss (gain) from:			
Changes in shareholding in subsidiary affiliates (including proceeds from realization of affiliate shares)	(5,145)	*) (302,418)	(97,876)
Write-off of investment in other company	-	8,830	-
Sale of fixed assets	2,637	92	938
Linkage differences on principal of debentures	-	220	(116)
Linkage differences on principal of long-term loans to banks and other, net	1,306	(225)	(3,386)
Erosion of long-term accounts and capital note	-	294	82
	232,743	(132,280)	(24,944)
Changes in operating asset and liability items:			
Decrease in trade receivables	3,182	3,541	2,235
Decrease (increase) in affiliate - current accounts	(32,600)	(950)	13,973
Decrease (increase) in other accounts receivable	(2,272)	1,917	(5,781)
Increase (decrease) in trade payables	15,354	(23,115)	(4,268)
Increase in other accounts payable	6,366	25,436	61,120
Increase in customers deposits for converters, net	7,589	3,956	535
	(2,381)	10,785	67,814
	230,362	(121,495)	42,870

(b) Supplementary information on investing activity not involving cash flows:

Purchase of fixed assets against credit from suppliers	54,941	40,316	28,602

*) Reclassified.

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

MATAV - CABLE SYSTEMS MEDIA LTD.

NOTE 1:- GENERAL

a. Operations:

1. Broadcasting licenses:

Matav - Cable Systems Media Ltd. (the Company) and its wholly-owned subsidiary, Cable Systems Media Haifa-Hadera Ltd. (Matav Haifa), operate in the field of cable television (CATV) broadcasting. In the past until amendment 25, as elaborated below, and the transfer to the policy of granting long-term non-exclusive licenses. Prior to the grant of the current licenses in 2002, the Company and Matav Haifa operated pursuant to five exclusive franchises granted to them by the Ministry of Communications for the providence of cable television services in franchise areas, in Israel as follows: Bat-Yam, Holon, Haifa, Netanya, Hadera, Kiryat Shemona, Safed, the Golan Heights and the Sea of Galilee area. The Company commenced commercial broadcasts in March 1990.

The franchises were granted to the Company and Matav Haifa under the Israeli Telecommunications Law, 1982, and the rules and regulations promulgated hereunder (the Telecommunications Law), which determine the framework in which the Company operates and the obligations of which the Company is required to fulfill. The Telecommunications Law determines, among other things, maximum subscription fees, milestones and restrictions on transfer and allotment of shares among the license holders.

On July 25, 2001, the Knesset (the Israeli Parliament) approved an amendment (No. 25) to the Telecommunications Law. Amendment 25 settled the licensing of CATV broadcasting by establishing a policy of general, long-term, non-exclusive licenses, as opposed to the exclusive regional CATV broadcasting franchises granted to the Company and Matav Haifa, for limited periods, prior to said amendment. As a result of the approval of Amendment 25, licenses conferring exclusive rights in certain areas cannot be granted. Pursuant to Amendment 25, the CATV operators are entitled to apply for a license to provide telecommunications services, a non-exclusive broadcasting license for CATV broadcasting and a non-exclusive license for a broadcasting center. Under the amendment, all the CATV operators can also apply to operate jointly once they have received their CATV licenses. In the beginning of 2002, the Company and Matav Haifa were granted with a general, long-term non-exclusive Broadcasting licenses for the same areas that were mentioned above, which replaced the franchises based on which, the Company operated until that date. The broadcasting licenses and the license to operate (Headend license) are for a period of 15 years, however, they may be extended for additional periods at the end of the tenth year.

NOTE 1:- GENERAL (Cont.)

Under the Telecommunications Law and in accordance with the council of Cable and Satellite Broadcastings (the Council) resolution of June 2002 as amended in September 2002 and in May 2003, each Cable Broadcast Licensee is required to allocate to production or purchase of locally produced broadcasts, a percentage of its annual income derived from subscriber fees for the year preceding the year of the investment, as follows: (i) commencing April 30, 2002 (the date of the grant of the Cable Broadcast License) and until the end of 2005, at least 8% of such income; and commencing 2006 and thereafter, as to be determined by the Council prior to the end of June 2005; and (ii) in the event a Cable Broadcast License is granted to the merged entity of the Israeli cable television operators, the Council shall determine, prior to the end of June 2005, the rate of the amounts that shall be allocated to local productions by the Cable Broadcast Licensee as of 2006 and thereafter. For this latter purpose, the Council shall consider, among other things, the financial condition of the Licensees in connection with their broadcast activities and the contribution of the said merger to the improvement of the financial condition of the Licensees. According to the valuation of the Company s management, the investment amount made by the Company for local production in initial broadcasting in 2001, 2002 and 2003 is higher than 8% of its annual revenues from the subscription fees for the same years.

Telecommunications Infrastructure License and structural separation of broadcasts and infrastructure:

As a result of Amendment 25, as aforesaid, in October 2001 the Company presented (except for the request to receive a general broadcasting license for multi channel TV and a license to operate Headend, as aforesaid) a request to receive Telecommunications Infrastructure license in connection with access to fast internet services and related services. During 2002, when the Telecommunications infrastructure license was granted to the Company, it was set that the license owner will be authorized to provide infrastructure services for the distribution of CATV broadcasts and access services to fast internet providers.

In August 2002, the Ministry of Communications granted the Company special licenses to provide additional Bezeq services on the cable network infrastructure to its subscribers in digital format (including SMS services and T-mail services over the cable network among TV subscribers).

In November 2002, the Minister of the Communication modified the Telecommunications Infrastructure license granted to Matav Infrastructures by adding data communication services, digital transmission services and optical transmission services.

NOTE 1:- GENERAL (Cont.)

In November 2003, the Ministry of Communications granted AMAT Telcom Limited Partnership (AMAT Telecom) (as for further details, see 8 below) a license to provide fixed internal Bezeq services over the cable network including inter alia - basic telephony services, access to fast internet services, infrastructure services, data and optical communication services and other services. Said license canceled and terminated the Telecommunications Infrastructure License which was granted to Matav infrastructures in March 2002.

The new license that was granted to AMAT Telecom is for a period of 20 years and it may be extended for additional periods of 10 years.

According to the Telecommunications Law, a Telecommunications infrastructure license was granted to the Company on the condition that the owners of the broadcasting licenses in the Group will transfer to another entity in the Group that will receive the Telecommunications Infrastructure License, all the rights in the cable network which they use for their broadcasts. Nonetheless, at per the Company request, it was determined in the broadcasting licenses and in the Telecommunications Infrastructure license that an owner of a broadcasting license may continue to be the owner of the cable network during an interim period which will end at the earlier of either after two years from the receipt of the license or, if there was a merger between the cable companies at the completion of the merger. Accordingly, in March 2002, the Company and Matav Infrastructures entered into an agreement whereby Matav conferred Matav infrastructure an exclusive right to lease its cable network until the earlier of December 31, 2003 or sixty (60) days from the date in which an authorized court issues a final merger order. In October 2002, the Group s Broadcast Licensees and the Telecommunications Infrastructure Licensee entered into an agreement, whereby the Telecommunications Infrastructure Licensee shall provide the Cable Broadcast Licensees Infrastructure services for the broadcast of cable broadcasts in the areas covered by their respective license, including installment, maintenance and disconnection of terminal equipment.

In the Telecommunications Infrastructure license which was granted to Amat Telcom it was determined that during the period which will end at the earlier of either after two years from the receipt of the license or, if there was a merger between the owners of completion of the general Broadcasting licenses, then at the date of the completion of the merger, AMAT Telcom shall have the exclusive right, inter alia, to use, operate, maintain and to develop the network and, at the end of said interim period, the full ownership in the cable network will be transferred to Amat Telcom. As of the date of the financial statements, an agreement between the Company and

Amat Telcom in connection with the grant of lease rights and the transfer of ownership to the network, as above, was not yet signed.

The Broadcastings licenses and the Telecommunications Infrastructure includes provisions as to the issue of a structural separation between the owner of Broadcastings license and the owner of the Telecommunications Infrastructure license.

NOTE 1:- GENERAL (Cont.)

In was further set in the Telecommunications Infrastructure license granted to AMAT Telecom that if a general license to operate an additional CATV system over the cable network is granted or if the number of access to fast internet subscribers of the owner of a Telecommunications Infrastructure license reaches 350,000 or if the number of telephone lines operated by the owner of the license reaches 250,000 a much broader structural separation (as detailed in the said license) will be carried out between the owners of Broadcastings licenses and the owner of the Telecommunications Infrastructure license.

The licenses of the Group include certain provisions relating to approvals required for change of means of control in the owners of such licenses.

2. On April 5, 2001, the Council published its decision regarding joint channel broadcasting (tiering). This technique enables the Company to provide to its digital services subscribers a basic broadcasting package in consideration of fixed subscription fees and to provide additional channels that will expand the basic package, in consideration of additional fees.

Based on the terms of broadcasting licenses, the Company must provide to all of its subscribers a basic package in an analogue and/or digital broadcasting method. In accordance with the general license provisions for cable broadcasting, the Company may request the council to reduce the basic broadcasting. In the event that broadcasts were removed from the basic broadcasts, in respect of which, a maximum tariff was determined in the license, the council may, subject to the minister s approval, direct the reduction of the maximum tariff at a rate to be determined by the council, provided that the license owner was given the opportunity to assert his claims. As of today, the broadcast package, for which a maximum tariff was set in the licenses is the basic analogical package, however, in the merger resolution of the council, it was determined that the council is authorized to direct the cable companies to reduce the basic analogical package.

The Company began to market tiering broadcasting packages to its subscribers in August 2001.

The Company informed the minister of communications that according to the actual demand of its subscribers, it shall provide its subscribers with digital converters (for a main extension), as follows: during 2001, up to 100,000 digital converters shall be provided; in 2002, 70,000 digital converters shall be provided; and during 2003, 60,000 digital converters shall be provided. The remainder is to be provided during 2004.

The company makes the necessary arrangements to meet the above requirements (according to the actual demand of the company s customers).

3. On January 5, 1999, the Knesset approved an amendment to the Telecommunications Law, according to which the Ministry of Communications may grant a license for direct broadcasting via satellite. On January 21, 1999, the Ministry of Communications granted D.B.S. Satellite Services (1998) Ltd. (known as: Yes) a license for providing television broadcasts to subscribers in Israel via satellite. YES began to operate and market its broadcasts in July 2000.

NOTE 1:- GENERAL (Cont.)

In January 2002, the Minister of Communications issued administrative directives with respect to allowing the utilization of subscriber lines (the administrative directives). The administrative directives stipulate that the Company would be obligated to allow Yes to utilize the lines of the subscribers of the Company, and that Yes would be obligated to allow the Company to utilize the lines of the subscribers of Yes. The administrative directives also establish instructions regarding payments that Yes is to pay the Company in respect of the use of a subscriber line which is located in an apartment that is part of a shared building, as well as instructions as to the amounts the Company is to pay Yes for such use of subscriber lines.

4. Merger of the cable companies:

In March 2002, the approval of the Council for the proposed merger of the operations of the cable companies was received and it was amended in February 2003 . The approval of the Council to the merger is subject to a number of conditions, including, inter alia: (i) an obligation upon the cable television operators to allow direct broadcasting by YES, to broadcast channels 3, 4, 5 & 6, for consideration. This obligation expires upon the earlier of either: December 31, 2003 (regarding channels 3 ,4 and 5); or the date on which Yes has at least 500,000 subscribers, after which YES may request an extension; (ii) an obligation of unbundling , obliging the merged entity to grant special broadcast license holders which broadcast on a digital platform a non-exclusive permit, for consideration, to use its network in order to transfer their broadcasts; (iii) a limitation upon the number of channels which the cable television operators shall be allowed to produce. In addition, in accordance with the approval of the Council, in the event that the Council is convinced that there is a material regression in competition in the multi channel television market, the Council is entitled to instruct the cable television operators to allow each special and general cable broadcast license holder, that broadcasts in a digital format, use the Company s infrastructure in order to access all potential subscribers, even if they are not the Company s subscribers, so long as the Company s cable network infrastructure reaches their premises. According to the Council s decision, a material regression will be deemed to occur, among other things, in the event that YES shall cease its operation or the merged entity shall provide services to more than 80% of multi-channel television subscribers in Israel.

In April 2002, the approval for the proposed merger was received from the Controller of Restrictive Business Practices (the Controller) for the merger. On April, June, November and December 2003, the Controller extended the validity of his approval to the merger until the earlier of December 15, 2004 or the completion of the merger.

The Controller s conditions to the merger includes, inter alia, conditions concerning: (1) separation between the cable infrastructure and the broadcasting activity of the merged companies; (2) giving access to and use of cable broadcasting infrastructure to owners of licenses to operate CATV systems; (3) the ownership structures of the merged companies; (4) restrictions as to the purchase of content and interest in the channels; (5) the commitment to transmit broadcasts; (6) provisions concerning non prevention of competitive infrastructures development; (7) restrictions on parties that are related to the merged companies, including in connection with acting as officers in the merged company and the transfer of business information; (8) the commitment to supply fixed telephone services to the public in Israel over the cable infrastructure on time and scope not below that was determined in the approval of the Controller to the merger.

MATAV - CABLE SYSTEMS MEDIA LTD.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (Cont.)

According to the Controller s conditions to the merger as extended, it was determined, inter alia, that the merged infrastructure company of the cable companies has to commercially supply telephone services over cable infrastructure to the public in Israel no later than by November 20, 2004. Similarly, it was determined that the merged infrastructure company will provide telephone services that compete with those of Bezeq in scope and time as mentioned in the Controller conditions.

The investment in telephone will be in an amount not below NIS 350 thousand and made as follows: until June 31, 2004 - the infrastructure company will invest an amount not below NIS 105 million; until June 31, 2005 - the infrastructure company will make an additional investment of not below NIS 140 million; until June 30, 2006 - the infrastructure company will invest an amount not below NIS 105 million and any other amount as far as it will be required in order to implement the business plan for the provision of telephone services that fully compete with Bezeq telephone services) and (9) the provision of a bank guarantee (by all the Cable companies) in the amount of 15 million dollars in an unqualified wording that will satisfy the Controller as collateral for the fulfillment of the Controller s conditions.

On November 19, 2003, the cable companies, including the Company, filed a request to be exempt from an approval of a Binding Arrangement as such term is defined under Section 14 of the Anti Trust Law, commencing November 16, 2003 and until the merger procedures of the cable companies are completed, or November 15, 2004, whichever is earlier, in order to enable the completion of the merger procedure of the cable companies

The above request to be exempt was filed in connection with the on going cooperation of the cable companies, inter alia, in the field of multi-channel cable broadcasting, national fixed communication services, including access services to Internet over the cables and telephony services including in the field of marketing, production and purchase of content and channels.

On December 17, 2003, the Controller granted the cable companies, including the Company, an exemption for a period of one year from approving of a Binding Arrangement in connection with said cooperation. The grant of the exemption is subject to the conditions as stated in the Controller s approval to the merger from April 2002, and subject to other conditions, inter alia, that the cable companies will not take any irreversible step which prevents independent and separate action from any of them if the merger is not consummated and that, until December 15, 2004, the cable companies will not perform any cooperation that is irreversible.

According to the position of the Supervisor of the Banks at the Bank of Israel, the merger of the cable companies and the formation of a merged cable entity constitutes a deviation from the directives of the Bank of Israel and of Proper Bank Management Instructions of the Supervisor of the banks, inter alia, regarding the restriction on Group of Borrowers , as such term is defined in the Proper Bank Management Instructions. The above position of the Supervisor has an impact as to the issue of giving loans by banking corporations and as to the issue of allocation of the merged company debts, inter alia, to an indirect controlling shareholder of the Company.

NOTE 1:- GENERAL (Cont.)

The merger is still conditional on additional approvals, among which the approval of the tax authorities, the signing of a detailed merger agreement between the shareholders of the cable companies, an arrangement with the banks and the approvals of the meetings of the creditors and shareholders of the cable companies.

In November 2002 and, subsequently, in March 2003, the Company s Board of Directors approved the signing of the agreements concerning the merger of the Cable companies, including the merger agreement, the shareholders agreement and the financing arrangements with the banks, etc. but these agreements whether the merger will be actually completed and if it will be computed when it will occur and what will be.

Based on the aforesaid, and due to the difficulties arising from the position of the Supervisor of the Banks, there is no certainty whether the merger will be actually completed and if it will be completed when it will actually occur and what will be its structure. The Company s management is examining any and all alternatives in order to continue to preserve the existing cooperation between the cable companies, including the exanimation of possible acquisition of Tevel s subscribers in the multi channel television and fast Internet access. (See Note 24).

In the framework of the approval of the Controller, there is an no going cooperation between the cable companies in marketing, sales, content purchase and other fields under the brand name Hot .

Appeals against the merger of the cable companies:

a) On May 26, 2002, two appeals were filed on the decision of the Controller with respect to the approval of the terms of the merger between the cable companies (the Controller s decision). The appeals were filed separately by Yes and Bezeq. Yes is requesting the cancellation of the approval of the merger since, as it alleges, the merger between the cable companies impairs the competition in the multi-channel television filed. Alternatively, Yes is requesting the change in the terms of the approval, among others, such that a structural separation will be required between the merged companies, the prohibition of the exclusive purchase of content (also with respect to original productions), the cancellation of the mutual requirement of obligation to sell.

Bezeq requested to strike the appeal filed on its behalf, the cable companies and the Controller requested to order Bezeq to pay court costs. A decision has not yet been rendered.

Summaries were made, and a ruling has not yet been rendered. According to the Company s management opinion, based on the opinion of its legal counsels, it is not possible to estimate the success chances of the appeal of Yes.

b) On January 20, 2004, Eshkolot - the Israeli Artists Society for Performers Rights Limited (Eshkolot) filed an appeal with the Restrictive Trade Practices Court on the decision of the Controller dated December 15, 2003, to extend his approval to the proposed merger of the cable companies.

NOTE 1:- GENERAL (Cont.)

Eshkolot, is requesting the cancellation of the decision to extend the approval of the merger. Alternatively, it is requesting that the court will make the merger contingent on further conditions as detailed in the appeal and/or any other condition that the court shall deem necessary. It is also requesting that the court will grant any other directive at its discretion.

The Controller and the cable companies are the respondents to the appeal.

On February 23, 2003, the Controller filed his response to the appeal. The cable companies have not yet filed a response to the appeal on their behalf.

According to the Company s management opinion, based on the opinion of its legal counsels, it is not possible at this preliminary stage to estimate the chances of the appeal. Nonetheless, the cable companies have good claims that refute those of Eshkolot.

5. On March 27, 2002, Matav Infrastructures 2001 L.P. (Matav Infrastructures), a subsidiary of the Company, received its Telecommunications Infrastructure License from the Ministry of Communications, for the

providence of fixed domestic telecommunication services and for operation of its Cable network as a telecommunication network (the Telecommunications Infrastructure License). Services to customers commenced in April 2002.

Access to fast Internet services is provided by Matav Infrastructures 2001 Limited Partnership (Matav Infrastructure) and is transferred over the cable infrastructures of the Group (see 8 below).

In addition, the Group has invested in ventures relating to the Internet and interactive communications through the associated company Nonstop Ventures Ltd. (Nonstop Ventures) (see Note 5b(3)).

6. As for the operations of Hot Vision Ltd. (Formerly: I.C.P. - Israel Cable Programming Company Ltd.) (Hot Vision), a jointly controlled company owned by the Company and the other CATV operators in Israel, see also Note 3 and Note 5b(4).

7. To date the Company through its wholly-owned subsidiary - Matav Investments Ltd. (Matav Investments), holds approximately 5.29% (in December 31, 2002 7.44%) of the shares of the affiliate, Partner Communications Company Ltd. (Partner). Partner operates a mobile telecommunications network based upon the Global System for Mobile Communications (GSM) Standard in Israel, see also Notes 5b(2) and 24a.

Matav Group can gain significant influence, as defined in Statement 68, by virtue of an agreement, entered into by and among the shareholders of Partner, according to which, Matav has the right to appoint two directors to serve on its behalf on Partner s board of directors.

NOTE 1:- GENERAL (Cont.)

In April 2002, the Group sold approximately 7.7% of Ordinary shares of Partner, in consideration of approximately adjusted NIS 306 million. The capital gain, net of taxes, from the above transaction amounted to adjusted NIS 197 million. As a result of this sale, the holdings in Partner shares were 7.43%.

In November 2003, the Group sold approximately 2.1% Ordinary shares of Partner in consideration of approximately adjusted NIS 114.4 million. The capital gain from the above sale net of the taxes totaled approximately adjusted NIS 62 million. After that sale, the holdings in Partner shares are approximately 5.29%. See also Note 24.

8. In October 2003, the Company s Board of Directors approved an agreement entered into with the other cable companies for the formation of a limited partnership, (the Partnership) Amat Telcom Limited partnership (hereafter Amat Telecom), whose aim was to be granted with a license from the Ministry of Communication for the providence of fixed telephone services in Israel.

In November 2003, the Partnership received a license to provide the above services. This license replaced the license to provide fixed domestic telecommunication services and to operate its Cable network as a telecommunication network for the provision of telecommunication services, which was received by Matav Infrustructures on March 2002.

In the context of the agreement, the Company (through its subsidiary), based on its proportionate share in overall subscribers of the cable companies (the subscribers of multi channel TV broadcast and the subscribers of access to fast Internet services) as of October 31, 2003, owns, directly and indirectly, approximately 26.5% of the Partnership rights as well as approximately 26.5% of the general partner rights in the Partnership.

According to the approval of the Controller, in connection with the proposed merger of the cable companies (see also 4 above), the Partnership is required to make a comprehensive investment in an amount estimated at approximately NIS 350 million over three years from the date the license was received.

The Company s portion of the investment, as aforesaid, is pro rata to its proportionate share in the Partnership and is estimated to be approximately NIS 93 million. (see also Note 15c(3).

Following to the decision, taken by the cable companies, the access to fast internet services activity will be transferred to the Partnership as of January 1, 2004.

9. As for the memorandum of agreement between Partner and the Company s shareholders, see Note 24a.

NOTE 1:- GENERAL (Cont.)

b. Definitions:

In these financial statements:

Wholly owned and controlled companies	-	companies or limited partnerships in which more than 50% of the voting equity is owned or controlled by the Company (as defined in Opinion 57 of the Institute of Certified Public Accountants in Israel) and whose accounts are consolidated with those of the Company
Jointly controlled company	-	- a company owned by various entities that have a contractual consent for joint control, which is not of a temporary nature and whose accounts are consolidated with those of the Company using the proportionate consolidation method.
Affiliates	-	companies that are not subsidiaries, and over which the Company has significant influence. The Company s investment therein is included using the equity method of accounting
Subsidiaries	-	Jointly controlled company and wholly owned and controlled companies.
The Group	-	the Company and its subsidiaries.
Interested Parties	-	as defined in the Securities Regulations (Preparation of Annual Financial Statements) 1993.
Related parties	-	as defined in the opinions of the Institute of Certified Public Accountants in Israel.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements presented herein are prepared in accordance with generally accepted accounting principles (GAAP) in Israel and in accordance with the Securities Regulations (Preparation of Annual Financial Statements, 1993).

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Financial statements in adjusted New Israeli Shekels:

1. The Group maintains its accounting records in nominal New Israeli Shekels (NIS). In accordance with the Statements of the Israeli Institute, all the amounts in the financial statements (including comparative figures) are presented in adjusted NIS, which have a constant purchasing power. The purchasing power of adjusted NIS reflects the average price level in December 2003, according to the Israeli Consumer Price Index (Israeli CPI) published on January 15, 2004 (178.6 points on the average basis of 1993 = 100).

2. The adjusted amounts of non-monetary assets do not necessarily represent realizable value or current economic value, but only the original historical cost of those assets in terms of adjusted NIS.

3. The term cost in these consolidated financial statements signifies cost in adjusted NIS.

4. A summary of the Company s nominal data is presented in Note 25.

c. Principles of adjustments:

1. Balance sheet:

a) Non-monetary items (items whose amounts in the balance sheet reflect their nominal amounts upon acquisition or incurrence, see below) have been adjusted on the basis of the changes in the Israeli CPI since their acquisition or incurrence.

Items which were treated as non-monetary include: other assets and deferred charges, property and equipment and the related accumulated depreciation, share capital and additional paid-in capital derived from cash received from shareholders.

b) Monetary items (items whose amounts in the balance sheet reflect current or realizable values) are presented in the balance sheet as of December 31, 2003 in their nominal amounts (comparative figures have been adjusted to the December 2003 Israeli CPI).

2. Statement of operations:

a) The components of the statement of operations (except for financing), relating to transactions carried out during the year - sales, purchases, labor costs, etc., have been adjusted at monthly indices at the time the related transactions were carried out or paid. The erosion of monetary balances relating to the aforesaid transactions has been included in financial income or expenses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) The components of the statement of operations relating to non-monetary items included in the balance sheet, (primarily depreciation and amortization) have been adjusted on the same basis used for the adjustment of the related balance sheet items.

c) The components of the statement of operations relating to provisions included in the balance sheet, such as liability in respect of accrued severance pay and accrued vacation pay, have been included according to the analysis of the adjusted change in the related balance sheet items after their relative cash flows are taken into account.

d) Income taxes:

Current taxes include payments on account during the year and the amounts outstanding as of balance sheet date (or net of the amounts claimed as returns as of balance sheet date). The payments on account have been adjusted on the basis of the Israeli CPI on the date of each payment, whereas the amounts outstanding (or claimed as refunds) were included without adjustment. In this manner, the current taxes also include the expense which derives from the erosion of the value of the payments on account from the date of payment to the end of the year.

e) The financing item, net, reflects real financial income and expenses, as well as the erosion of monetary balances during the year.

3. Data regarding Israeli CPI and exchange rates of foreign currency:

1. Assets and liabilities in or linked to foreign currency are included in the financial statements according to the representative exchange rates as published by the Bank of Israel on December 31, 2003.

2. Assets and liabilities linked to the Israeli CPI are included in the financial statements according to the relevant index for each asset or liability.

The following are details of the Israeli CPI and the exchange rate of the U.S. dollar:

	Israeli CPI	Exchange rate of U.S. dollar
At December 31,:	**points *)**	**NIS**
2003	178.6	4.379
2002	182.0	4.737
2001	170.9	4.416
2000	168.5	4.041
Changes during the year:	**%**	**%**
2003	(1.9)	(7.6)
2002	6.5	7.3
2001	1.4	9.3

*) According to the Israeli CPI for the month ending on the balance sheet date on an average basis of 1993 = 100.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Principles of consolidation:

1. These financial statements include the accounts of the Company and its subsidiaries.

2. The significant consolidated subsidiaries are as follows:

Wholly-owned:
- Matav Haifa;
- Matav Investments;
- Matav Infrastructure Ltd.

Wholly-owned subsidiaries of Matav Investments:
- Matav Properties Ltd;
- Nonstop Internet 1999 Ltd. (ceased its operations in 2001)

Wholly-owned subsidiaries of Matav Infrastructure Ltd.:
- Matav Infrastructure 2001 - limited partnership

Jointly controlled entity:
- Hot Vision Ltd.

3. Excess of cost of investment - attributed to the exclusive franchise granted to Matav Haifa - is presented in the consolidated balance sheets under Other assets and deferred charges and is amortized by the straight-line method over the basic franchise period (12 years commencing in the year of acquisition), under general and administrative expenses.

4. Intercompany balances and transactions have been eliminated in consolidation.

e. Investments:

1. Affiliates and subsidiaries:

The investment in these companies is accounted for by the equity method.

2. Other companies:

The investment in these companies is stated at cost, net of write-down for decrease in value which is not of a temporary nature.

f. Investments in limited partnerships:

The investment in limited partnerships producing films, in which the Company is a limited partner, is presented at cost. The investment in the partnerships is amortized when actual broadcast takes place.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Rights to broadcast films and programs:

The cost includes the amount of the commitments with sellers of rights to broadcast films and TV programs with the addition of direct costs in order to adjust said films and programs for broadcasting in Israel.

The rights to use content by the jointly controlled entity which made available by its shareholders, are included in this section.

Cost of rights are amortized when actual broadcasting takes place, while giving a relatively greater weight to primary broadcasting.

h. Fixed assets:

1. These assets are stated at cost.

2. The assets (other than capitalized lease fees and leasehold improvements, see below) are depreciated by the straight-line method on basis of their estimated useful life Company evaluates in each reporting period the necessity to record an impairment loss, in accordance with the provisions of Accounting Standard No. 15 (see k below). The annual depreciation rates are as follows:

	%
Buildings	2 - 4 (mainly 2)
Cable network	8.33;10
Equipment in the broadcasting center and studio (primarily electronic equipment)	15 - 20 (mainly 15)
Converters	10
Computers and peripheral equipment	20 - 33
Office furniture and equipment	6 - 10
Internet site development	33
Vehicles	15

Capitalized lease fees are amortized by the straight-line method over the term of the lease.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

i. Other assets, long-term receivables and deferred charges:

1. Other assets - excess of cost of investment in consolidated subsidiary is attributed to exclusive franchise- see d(3) above.

2. Deferred charges in respect of issuance of debentures are amortized, using the interest method, over the life of the debentures, in proportion to the balance of debentures outstanding. The amortization is recorded under the financial expenses, net.

3. Other assets include payment made in respect of a non-exclusive license to provide stationary communications services within Israel. The license charges will be amortized by the straight-line method over the period of the license (15 years).

4. The embedded interest component in the present value of the lease fees in respect of assets that were leased in a capital leas is presented in the item of long-term other receivables and is amortized over the lease term, 5 years.

j. Revenue recognition:

1. Revenue from subscription fees is recognized on a monthly basis as the service is provided.

2. See also l below (amortization of customers deposits for converters).

k. Impairment of assets:

1. Impairment of fixed assets:

On January 1, 2003, the Company adopted Accounting Standard No. 15, Impairment of Assets . This Standard prescribes the accounting treatment and disclosures required in the event of impairment of assets. The Standard applies to all assets recognized in the balance sheet other than inventories, assets generated by construction contracts, assets generated by employee benefits, deferred tax assets and financial assets (except investments in investees that are not subsidiaries). According to the new Standard, whenever there is an indication that an asset may be impaired, the Company should determine if there has been an impairment of the asset by comparing the carrying amount of the asset to its recoverable amount. The recoverable amount is the higher of an asset s net selling price or value in use, which is determined based on the present value of estimated future cash flows expected to be generated by the continuing use of an asset and by its disposal at the end of its useful life. If the carrying amount of an asset exceeds its recoverable amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. An impairment loss recognized should be reversed only if there have been changes in the estimates used to determine the asset s recoverable amount since the impairment loss was recognized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The adoption of this Standard did not have a material effect on the Company s financial position and results of operations.

2. Impairment of investments in other companies:

The Company generally evaluates the fair value of its investments in each reporting period and whenever changes in circumstances or occurrence of other events indicate a decline in value that is other than temporary.

The evaluation of the fair value takes into consideration, among others, the market value of the investments (in respect of investments in marketable securities), estimates of analysts and valuations of the investments, the conditions of the industry in which the portfolio company is operating, the portfolio company s business condition, off-market transactions in the portfolio company s securities, prices of equity transactions in the portfolio company and additional information that the portfolio company presents to its board of directors (if the Company is represented on the board) or to its shareholders.

Based on the results of the above evaluation, the Company, if necessary, recognizes an impairment loss that is other than temporary in the statement of operations.

l. Customers deposits for converters:

The Company and Matav Haifa collect deposits from their subscribers in respect of converters, in an amount not exceeding their cost. The Company and Matav Haifa partially refund the deposit when the converter is returned. The refund amount (which is linked to the Israeli CPI) is reduced to reflect 10% amortization for each year or portion of a year in which the subscriber used the converter.

In July 2003, the financial committee of the Knesset approved amendment No. 5 of the Bezeq regulations (Licenses) that enables the Company to amortize deposits that were collected from the date of approval at a rate of 10% of their cost to the Company.

The amortization of the deposits is included in revenue.

m. Income taxes:

1. Deferred taxes are computed in respect of differences between the amounts presented in these financials statements and those taken into account for tax purposes. As to the main factors in respect of which deferred taxes have been included - see Note 17b.

   Deferred tax balances are computed at the tax rate expected to be in effect at time of release to income from the deferred tax accounts. The amount of deferred taxes presented in the income statements reflects changes in the above balances during the reported years.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Taxes which would apply in the event of disposal of the investments in the subsidiaries and the affiliates (except for Partner) have not been taken into account in computing the deferred taxes, as it is the Company s policy to hold these investments. As to Partner: During the year, the Company s management revised its plans as to the nature of the investment in the shares of Partner from an investment whose realization in the foreseeable future is unlikely to an investment whose realization may be in the foreseeable future. In view of the change in Company s management plans as to the nature of the investment in the shares of Partner, as aforesaid, and in accordance with the provisions of Opinion 68 of the Institute of Certified Public Accountants in Israel, in the year ended December 31, 2003, the Company recorded a deferred tax liability. See also Note 5b.

3. Due to the uncertainty whether or not the company shall incur taxable income in the foreseeable future and since the Company accumulated tax loss carryforwards, the Company did not provide for deferred taxes in respect of tax loss carryforwards and in respect of temporary differences for certain income and expenses between the financial reporting purposes and reporting for tax purposes.

n. Allowance for doubtful accounts:

The allowance is principally determined for specific debts that are doubtful of collection, based on the age of the customers debt.

o. Cash equivalents:

The Group considers all highly liquid investments, which include unrestricted short-term bank deposits (up to three months from date of deposit), to be cash equivalents.

p. Earnings (loss) per Ordinary share:

Earnings (loss) per Ordinary share is computed based on the weighted average number of shares outstanding during each year (including shares issuable under the option plan for senior employees, see Note 16b, and exercise of series 1 warrants, see Note 16c).

q. Linkage basis:

Balances whose contractual linkage terms stipulate linkage to the latest index published prior to the date of payment are stated on basis of the latest index published prior to balance sheet date.

r. Advertising expenses:

Advertising expenses are charged to income as incurred, see also Note 19b.

s. Derivatives:

The Company enters into forward exchange contracts to offset possible fluctuation in the NIS/dollar exchange rate. The Company does not hold or issue derivative financial instruments for trading purposes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The forward exchange contracts are stated at fair value. Gains and losses on the forward exchange contracts are included in the financial expenses.

t. Implementation of new accounting standards and their impact on the financial statements:

In October 2001, the Israel Accounting Standards Board published Accounting Standard No. 12 with respect to the discontinuance of the adjustment of financial statements. In December 2002, Accounting Standard No. 17 was published with respect to the deferral of the effective date of Accounting Standard No. 12 to January 1, 2004.

According to Accounting Standards No. 12 and No. 17, which deal with the discontinuance of the adjustment of financial statements, financial statements will cease to be adjusted for inflation in Israel beginning January 1, 2004. Until December 31, 2003, the Company continued to prepare adjusted financial statements in accordance with Opinion No. 36 of the Institute of Certified Public Accountants in Israel. The adjusted amounts included in the financial statements as of December 31, 2003, will serve as the starting point for nominal financial reporting beginning January 1, 2004.

The effect of the adoption of Accounting Standard No. 12 is dependent on the inflation rate in Israel, on the composition of the Company s assets and its sources of financing at that time.

NOTE 3:- JOINTLY CONTROLLED COMPANY

a. On December 31, 2003, the accounts of Hot Vision were consolidated for the first time by the proportionate consolidation method on the basis of the Company s proportionate share in the issued share capital of Hot Vision (26.6%). Until that date, the investment in Hot Vision was presented by the equity method of accounting.

b. Below are condensed data from the financial statements of the aforesaid company as they were included in the adjusted consolidated financial statements.

	December 31, 2003
	Adjusted NIS in thousands
Current assets	20,520
Noncurrent assets	38,125
Current liabilities	61,913
Long-term liabilities	737

NOTE 4:- ACCOUNTS RECEIVABLE

a. Trade receivables:

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2003	2002	2003
	Adjusted NIS in thousands			
Open accounts (1) (2)	68,350	82,772	47,303	45,054
Notes and checks	347	379	332	346
	68,697	83,151	47,635	45,400
(1) Net of allowance for doubtful accounts	3,887	3,250	2,898	2,495
(2) Includes credit cards balance in the amount of	20,471	21,551	14,356	13,442

b. Other accounts receivable:

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2003	2002	2003
	Adjusted NIS in thousands			
Prepaid expenses	12,063	10,851	9,858	12,422
Accrued income	1,699	3,953	1,199	3,238
Other	4,075	4,961	1,620	3,771
	17,837	19,765	12,677	19,431

-32-

MATAV - CABLE SYSTEMS MEDIA LTD.

NOTES TO FINANCIAL STATEMENTS

NOTE 5:- INVESTMENTS IN SUBSIDIAIRES AFFILIATES AND OTHER COMPANY

a. Investments in subsidiaries (losses over the investments in subsidiaries):

1. The investment is composed as follows:

	The Company			
	December 31,			
	2003			2002
	Included in investments and long-term receivables	Included in long-term liabilities	Total	Total
	Adjusted NIS in thousands			
Cost of shares	8,362	-	8,362	8,290
Excess of investment cost, net	-	-	-	894
Equity in accumulated losses (1)	(120,578)	(7,177)	(127,755)	(96,654)
Equity value	(112,216)	(7,177)	(119,393)	(87,470)
Long-term loan (2)	36,903	-	36,903	36,903
Long-term accounts (3)	322,661	-	322,661	376,175
Capital notes (4)	-	(3,601)	(3,601)	(2,669)
	247,348	(10,778)	236,570	322,939
Cost of Company shares held by subsidiary	-	-	-	(64,917)

	The Company			
	247,348	(10,778)	236,570	258,022
Excess of investment cost, net				
Original amount	17,099	-	17,099	17,099
Net of accumulated amortization	17,099	-	17,099	16,205
	-	-	-	894

(1) Net of amortization of excess of investment cost, net

(2) The CPI linked loan does not bear interest and its repayment date had not yet been determined.

(3) Long term accounts are linked to the CPI, and its repayment date had not yet been determined.

(4) Capital notes are unlinked to CPI and bear no interest, and its repayment date had not yet been determined.

NOTE 5:- INVESTMENTS IN SUBSIDIAIRES AFFILIATES AND OTHER COMPANIES (Cont.)

2. The changes in the investments during 2003 and 2002 are as follows:

	The Company	
	December 31,	
	2002	2003
	Adjusted NIS in thousands	
Balance at the beginning of the year	246,804	258,022
Changes during the year:		
Equity in earnings (losses)	(57,357)	(31,485)
Impairment of investment in subsidiary (MIS)	-	(1,062)
Sale of company shares by subsidiary	1,288	64,917
Firstly proportionate consolidation of jointly consolidated company	-	624
Long term accounts granted	67,287	-
Repayment of long term accounts	-	(54,396)
Erosion of capital note	-	(50)

	The Company	
Balance at the end of the year	258,022	236,570

b. Investments in affiliates:

1. The investment is composed as follows:

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2003	2002	2003
	Adjusted NIS in thousands			
Partner, see (2) below	18,400	65,373	14,180	62,369
Nonstop Ventures, see (3) below	2,664	1,434	13,654	13,623
Hot Vision, see (4) below	1,336	-	1,336	-
	22,400	66,807	29,170	75,992

NOTE 5:- INVESTMENTS IN SUBSIDIAIRES AFFILIATES AND OTHER COMPANIES (Cont.)

The changes in the investments during 2003 and 2002 are as follows:

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2003	2002	2003
	Adjusted NIS in thousands			
Balance at the beginning of the year	20,939	22,400	15,005	29,170
Changes during the year:				
Company that consolidated for the first time by proportionate consolidation	-	(624)	-	(624)
Erosion of capital note (see Note 5(3))	(294)	(31)	(294)	(31)

	Consolidated		The Company	
Sale of investments	(9,155)	(17,508)	-	(16,293)
Equity in earnings	10,910	62,840	14,459	64,042
Provision for expected dilution	-	(270)	-	(270)
Balance at the end of the year	22,400	66,807	29,170	75,992

2. Partner:

a) The investment in Partner is composed as follows:

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2003	2002	2003
	Adjusted NIS in thousands			
Shares:				
Cost of shares	3,474	2,437	-	-
Equity in accumulated earnings (losses)	14,926	63,206	14,180	62,639
Provision for expected dilution	-	(270)	-	(270)
	18,400	65,373	14,180	62,369

NOTE 5:- INVESTMENTS IN SUBSIDIAIRES AFFILIATES AND OTHER COMPANIES (Cont.)

b) Partner operates a mobile telecommunications networks based upon the Global System for mobile Communications (GSM) Standard in Israel.

On November 1, 1999, Partner - in which the Group held by the Company and Matav Investments 20.326% of its issued capital - offered to the public abroad in an initial public offering (IPO) 38,888,999 ADS, each ADS representing one Ordinary share of NIS 0.01 par value of Partner, at a price of $ 13.50 per ADS.

Since the IPO, Partner s ADS are listed on the NASDAQ National Market in the United States (NASDAQ) and on the London Stock Exchange. Since July 2001, Partner s shares are also listed for trading on the Tel-Aviv Stock Exchange (TASE).

On October 17, 2000, the Group purchased an additional 0.42% of Partner s share capital (760,000) for adjusted NIS 20.4 million. During August and November 2001, the Company sold those shares in consideration of adjusted NIS 20.7 million. As a result of these sales, the Company recorded a capital gain of adjusted NIS 5.1 million. The Group owns as of December 31, 2003 and 2002, 5.29% and 7.44%, respectively, in Partner.

The market value of Partner s shares owned by the Group is NIS 332 million and adjusted NIS 223 million at December 31, 2003 and 2002, respectively. The market value of the shares on or about the date of publishing the financial statements is NIS 341.2 million.

As to collateral on Partner s shares, see Note 15c(2).

c) In April 2002, the Group entered into agreements according to which it sold to a subsidiary of Hutchison Whampoa Ltd. 13,778,668 shares of Partner, which constitute 7.7% of Partner s issued and outstanding share capital. The proceeds from the sale amounted to adjusted NIS 306 million. The capital gain (net of taxes) recorded by the Group from the above transaction amounts to adjusted NIS 197 million.

On November 3, 2003, a subsidiary sold 3,826,169 Ordinary shares of Partner in consideration for approximately adjusted NIS 114.4 million. The capital gain from the above sale net of the tax effect totals approximately adjusted NIS 62 million. After said sale, the shareholdings in Partner is 5.29%.

d) During the year, the Company s management revised its plans as to the nature of the investment in the shares of Partner Communication Ltd. (Partner) from an investment whose realization in the foreseeable future is unlikely to an investment whose realization may be in the foreseeable future. The revision of the plans of Company s management, as aforesaid, included sale of holdings in Partner s unrestricted shares, as described above.

NOTE 5:- INVESTMENTS IN SUBSIDIAIRES AFFILIATES AND OTHER COMPANIES (Cont.)

In view of the change in Company s management plans as to the nature of the investment in the shares of Partner, as aforesaid, and in accordance with the provisions of Opinion 68 of the Institute of Certified Public Accountants in Israel, in the year ended December 31, 2003, the Company recorded a deferred tax liability of approximately adjusted NIS 22 million for the difference between the cost of the investment in shares for tax purposes and their book value as presented in the financial statements as of December 31, 2003. This expense was presented at the profit and loss accounts as an offset from the Company s share in earnings of affiliates.

e) Partner s contingent liabilities:

1) On October 28, 1999, an Israeli consumer organization lodged a claim against Partner, alleging a variety of consumer complaints and requested that this claim be approved as a class action.

On March 20, 2002, the Haifa District Court decided to strike the claim, because the consumer organization lost, on December 31, 2001, a special status required under Israeli law for consumer organizations, to file class action claims.

Another claim, involving a substantial amount, which was filed by a private consumer who had previously requested to join the above class action, has been brought again before the court. The court had previously stayed the proceedings of the private consumer s claim, until a decision was made in the case that was filed by the consumer organization.

On May 25, 2003, the private consumer filed a request to amend his motion to file a class action claim and the proposed claim itself, and also a draft of the proposed amended motion and claim. The motion to amend was granted and on January 21, 2004, Partner has submitted its response to the motion.

While the amount of the claim is substantial, the ultimate liability cannot be determined because of the considerable uncertainties that exist. At this stage, unless and until the claim is approved as class action, Partner and its legal counsel are unable to evaluate the probability of success of such claim and therefore no provision has been made. In addition, Partner and its legal advisers are of the opinion that in light of the facts known at this early stage, the prospects that a material amount would be ordered in favor of the plaintiffs are low.

NOTE 5:- INVESTMENTS IN SUBSIDIAIRES AFFILIATES AND OTHER COMPANIES (Cont.)

2) On July 8, 2001, a claim was filed against Partner for alleged violation of supplier s exclusivity agreement. For filing purposes, the claim was set at NIS 18 million; however, this amount can be increased by the claimant.

At this stage, since preliminary proceedings between the parties are yet to take place, and the claim concerns a contract interpretation issue, Partner and its legal counsel are unable to evaluate the probability of success of the said litigation, and therefore no provision has been made.

3) On April 8, 2002, a claim was filed against Partner, together with a motion to approve this claim as a class action, alleging a variety of consumer complaints. The amount of the claim against Partner is estimated at approximately NIS 545 million plus additional significant amounts relating to other alleged damages. Only a preliminary hearing has taken place and another preliminary hearing is set for March 28, 2004.

At this stage, and until the claim is approved as a class action, Partner and its legal counsel are unable to evaluate the probability of success of such claim, and therefore no provision has been made.

In addition, Partner and its legal counsel are of the opinion that even if the request to approve this claim as a class action is granted, and even if the plaintiff s arguments are accepted, the outcome of the claim will be significantly lower than the abovementioned amount.

4) On April 13, 2003 a claim was filed against Partner and other cellular telecommunication companies, together with a request to approve this claim as a class action, for alleged violation of antitrust law, alleging that no fee should have been collected for incoming SMS messages or alternatively, that the fee collected is excessive and that it is a result of illegal co-operation between the defendants. The amount of the claim against all the defendants is estimated at approximately NIS 90 million. Partner has filed its response on October 1, 2003.

At this stage, no hearings have taken place and unless and until the claim is approved as a class action, Partner and its legal counsel are unable to evaluate the probability of success of such claim, and therefore no provision has been made.

5) Partner does not have building permits for many of its cell sites and as a result is involved in numerous legal actions (including criminal proceedings against officers and directors) relating to this issue.

Most of these proceedings have been settled under plea bargain arrangements, whereby Partner has paid fines of insignificant amounts.

NOTE 5:- INVESTMENTS IN SUBSIDIAIRES AFFILIATES AND OTHER COMPANIES (Cont.)

Management, based upon current experience and the opinion of legal counsel, does not believe that these legal actions will result in significant costs to Partner. The accounts do not include a provision in respect thereof.

6) Partner is a party to various claims arising in the ordinary course of its operations. Management, based upon the opinion of its legal counsel, is of the opinion that the ultimate resolution of these claims will not have a material effect on the financial position of Partner. The accounts do not include a provision in respect thereof.

7) On July 15, 2003, the Ministry of Communications decided to decrease the deduction rate in respect of payments that Bezeq The Israel Communication Corp. Limited fails to collect from its customers for using Partner s network to 1.1% from 2.5%. The decision is effective retroactively for the period from October 2, 2000 and through August 31, 2003. As from September 1, 2003 the deduction rate was cancelled altogether.

Bezeq has filed an appeal with the Jerusalem District Court on the Minister s decision.

On January 6, 2004, the Supreme Court within the framework of Partner s appeal on the District Court s ruling in respect of previous case between the parties, that related to Bezeq s failure to collect payments from its customers for using Partner s network for calls from fixed lines to mobile lines - ruled that the Minister s decision concerning the aforementioned deduction of 1.1% shall also apply to the period from March 1, 2000 to October 2, 2000, and that this deduction rate shall remain in effect or shall be amended in accordance with the outcome of the appeal filed by Bezeq on the aforesaid decision of the Minister.

At this stage, since preliminary proceedings are yet to take place, Partner and its legal counsel are unable to evaluate the probability of success of the appeal, therefore the effect of the Ministry of Communication s decision on Partner s results (income of approximately NIS 19.5 million), was not recognized.

8) See Note 24a.

NOTE 5:- INVESTMENTS IN SUBSIDIAIRES AFFILIATES AND OTHER COMPANIES (Cont.)

3. Nonstop Ventures:

a) The Group owns, December 31, 2003 and 2002, 50% of Nonstop Ventures (see b) below). The Group s investment in Nonstop ventures is composed as follows:

Consolidated		The Company	
December 31,		December 31,	
2002	2003	2002	2003

	Consolidated		The Company	
	Adjusted NIS in thousands			
Shares:				
Cost of shares	5	5	-	-
Equity in accumulated losses	(10,995)	(12,194)	-	-
Long-term loans and capital notes *)	13,654	13,623	13,654	13,623
	2,664	1,434	13,654	13,623

*) Include long-term loans (bearing interest at the rate of Prime) and capital notes that bear no interest and are unlinked, effective from January 2002. The date of repayment of the above capital notes and long-term loans, has not yet been determined.

b) Nonstop ventures is 50% owned by the Group and 50% by shareholders of the Company.

Nonstop Ventures is engaged in the investments in companies and entrepreneurs whose main activities are in the area of Internet, cable and data Communications.

NOTE 5:- INVESTMENTS IN SUBSIDIAIRES AFFILIATES AND OTHER COMPANIES (Cont.)

4. Hot Vision:

a) The Company owns, at December 31, 2003 and 2002, 26.6% and 25.65% respectively of Hot Vision ordinary shares (see b. below). In addition, the Company owns 28.6% of Hot vision preferred shares. Since December 31, 2003, the Company consolidated the accounts of Hot Vision by the proportionate consolidation method (see Note 3). The Company s investment in Hot Vision is composed as follows:

	Consolidated and Company
	December 2002*)
	Adjusted NIS in thousands
Shares:	
Cost of shares	72
Equity in undistributed profits	1,264
	1,336

*) As of December 31, 2003 the Investment in Hot Vision is included in the Investments in subsidiaries. See Note 3 and 5(a) above.

b) Hot Vision is owned by the CATV companies in Israel (including the Company). It was formed in order to jointly acquire sole and exclusive rights to broadcast movies and television programs and to grant those rights to its shareholders for the purpose of television broadcast.

As of December 31, 2003, the Company holds, directly and indirectly, approximately 26.6% of the issued ordinary shares capital of Hot Vision and this is according to an agreement between the cable companies, the owners of interests in Hot Vision, according to which, each of them shall retain holding in ordinary shares capital and in voting rights according to the relative share of the shareholders in the weighted number of active subscribers in each year. Similarly, the Preferred shares confer upon their holders an exclusive right in the distribution of earnings upon liquidation up to the amount of approximately NIS 12 million. Other earnings will be distributed to the ordinary shareholders pro rata to their holdings. Similarly, Hot Vision is jointly controlled by the cable companies.

NOTE 5:- INVESTMENTS IN SUBSIDIAIRES AFFILIATES AND OTHER COMPANIES (Cont.)

1) According to the opinion of the Company s management, based on the opinion of its legal counsel, that in light of the decision of the Controller dated April 22, 2002, with respect to the merger of the cable companies, as extended, and in light of the exemption from approving of a Binding Agreement granted by Controller on December 17, 2003, there is no longer a need for the approval of the Restrictive Trade Practices Court for the continued existence of the ICP arrangement; that is, to continued joint broadcasting of channels 3 and 4 through Hot Vision.

2) In the past, Hot Vision signed agreements with certain shareholders in connection with the provision of contents purchased by them from the rights suppliers. The agreements are until December 31, 2000, where shareholders are entitled to extend them for additional periods of 12 months each, on terms to be determined by the parties. The shareholders have not yet exercised the extension option for an additional year in 2004.

The scope of investments in 2003 and 2002 is NIS 66 million and NIS 115 million, respectively.

c) Bank Hapoalim Ltd. considers Hot Vision as Related Party as such term is defined in the Proper Bank Management Instructions of the Supervisor of the Banks of the Bank of Israel. Accordingly, the bank demands that Hot Vision repays its outstanding borrowings amounting to NIS 71 million. The Company s portion in these borrowings is approximately NIS 18.9 million. The cable companies, including the Company, are operating in order to settle the issue.

c. Other company:

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2003	2002	2003
	Adjusted NIS in thousands			
Cost of shares of Barak I.T.C				

	Consolidated		The Company	
(1995) - International Telecommunications Services Corp. Ltd. ("Barak") *)	16,241	16,241	16,227	16,227

*) Barak, 10% of which is held by the Group, won a tender of the Israeli Ministry of Communications for the provision of international telephony services. The operating license was granted to Barak in February 1997 for a period of ten years and the provision of services commenced in July 1997.

During 2002, the Company wrote-off a part of its investment in Barak, which amounted to NIS 8.8 million, inter-alia, by valuation of Barak. This amount was presented in other income, net.

NOTE 6:- INVESTMENT IN LIMITED PARTNERSHIPS

The jointly controlled entity invests in limited partnerships that are engaged in the production of films in Israel. The limited partnerships received an approval from a committee at the Ministry of Industry and Trade which deals with withholding tax of films under the Income Tax Regulations (Withholding of Investors Income from Israeli Films), 1990.

The jointly controlled entity is a limited partner in these partnerships.

NOTE 7:- RIGHTS TO BROADCAST MOVIES AND PROGRAMS

	December 31, 2003
	Adjusted NIS in thousands
Balance at the end of the year *)	34,927

*) See also Note 5b(4).

NOTE 8:- FIXED ASSETS

Composition of assets and accumulated depreciation and amortization, grouped by major classifications, and changes during

2003, are as follows:

	Consolidated											
	Cost					Accumulated depreciation					Depreciated balance	
	Changes during the year					Changes during the year					December 31,	
	Balance at beginning of year *)	Additions	Disposal	Jointly controlled company, proportionally consolidated for the first time	Balance at end of year	Balance at beginning of year *)	Additions	Disposals	Jointly controlled company, proportionally consolidated for the first time	Balance a at end of year	2002 *)	2003
	Adjusted NIS in thousands											
Leasehold land (including construction plans) (1)	4,319	-	-	-	4,319	-	-	-	-	-	4,319	4,319
Buildings (including land)(2)	53,435	264	-	-	53,699	10,572	1,088	-	-	11,660	42,863	42,039
Cable network	1,314,716	27,897	-	-	1,342,613	714,380	106,160	-	-	820,540	600,336	522,073
Broadcasting center (primarily electronic equipment)	132,211	2,175	-	2,554	136,940	94,109	5,396	-	1,973	101,478	38,102	35,462
Studio equipment	18,269	43	6,018	-	12,294	14,816	904	3,426	-	12,294	3,453	-
Converters and modems	380,368	22,763	12,889	-	390,242	105,604	34,626	4,125	-	136,105	274,764	254,137
Computers and peripheral equipment	59,819	2,230	-	-	62,049	40,962	10,185	-	-	51,147	18,857	10,902
Office furniture and equipment	11,876	31	-	2,600	14,507	7,210	541	-	2,183	9,934	4,666	4,573
Leasehold improvements	5,887	36	-	441	6,364	3,962	305	-	353	4,620	1,925	1,744
Internet site development	1,395	177	473	-	1,099	989	421	438	-	972	406	127
Vehicle	4,924	-	761	119	4,282	2,617	689	496	62	2,872	2,307	1,410
Telephone equipment	-	39	-	-	39	-	-	-	-	-	-	39
	1,987,219	55,655	20,141	5,714	2,028,447	995,221	160,315	8,485	4,571	1,151,622	991,998	876,825

(1) The land is leased for a 49 year period ending in 2038. The lease fees have been capitalized. Registration of the lease with the Land Registry has not yet been completed.

(2) The cost of the buildings, includes an amount of adjusted NIS 21,907 thousand at December 31, 2003 and 2002, representing cost of buildings on leased land. The lease in respect of most of the land is for 49 year period ending in 2040, with an option to renew the lease for an 49 additional years. The lease fees have been capitalized. Registration of the leases with the Land Registry has not yet been completed.

*) Reclassified.

NOTE 8:- FIXED ASSETS (Cont.)

	The Company									
	Cost				Accumulated depreciation				Depreciated balance	
	Balance at beginning of year (*)	Changes during the year Additions	Changes during the year Disposals	Balance at end of year	Balance at beginning of year(*)	Changes during the year Additions	Changes during the year Disposals	Balance at end of year	December 31, 2002 (*)	December 31, 2003
	Adjusted NIS in thousands									
Leasehold land (including construction plans) (1)	4,319	-	-	4,319	-	-	-	-	4,319	4,319
Buildings (including land) (2)	18,672	203	-	18,875	5,103	429	-	5,532	13,569	13,343
Cable network	990,209	189	-	990,398	517,859	78,363	-	596,222	472,350	394,176
Broadcasting center (primarily electronic equipment)	64,551	534	-	65,085	53,012	2,688	-	55,700	11,539	9,385
Studio equipment	7,194	22	3,655	3,561	4,907	547	1,893	3,561	2,287	-
Converters and modems	272,081	10,558	9,877	272,762	75,303	25,168	3,212	97,259	196,778	175,503
Computers and peripheral equipment	52,942	2,218	-	55,160	35,927	9,603	-	45,530	17,015	9,630
Office furniture and equipment	8,699	5	-	8,704	5,327	379	-	5,706	3,372	2,998
Leasehold improvements	5,887	34	-	5,921	3,962	305	-	4,267	1,925	1,654
Internet site development	1,568	-	473	1,095	998	434	438	994	570	101
Vehicle	3,986	-	683	3,303	2,040	567	430	2,177	1,946	1,126
	1,430,108	13,763	14,688	1,429,183	704,438	118,483	5,973	816,948	725,670	612,235

(1) The land is leased for a 49 year period ending in 2038. The lease fees have been capitalized. Registration of the lease with the Land Registry has not yet been completed.

(2) The cost of the buildings, includes an amount of adjusted NIS 21,907 thousand at December 31, 2003 and 2002, representing cost of buildings on leased land. The lease in respect of most of the land is for 49 year period ending in 2040, with an option to renew the lease for an 49 additional years. The lease fees have been capitalized. Registration of the leases with the Land Registry has not yet been completed.

*) Reclassified.

NOTE 9:- OTHER ASSETS AND DEFERED CHARGES

	Consolidated				The Company	
	Original amount		Unamortized balance		Unamortized balance	
	December 31,				December 31	
	2002	2003	2002	2003	2002	2003
	Adjusted NIS in thousands					
Excess of cost of investment in Matav Haifa, see Note 2d	17,099	17,099	894	-	-	-
Deferred charges in respect of issuance of debentures, see Note 14	11,393	11,393	2,497	1,330	2,497	1,330
Payment in respect of non-exclusive license, see Note 2(i)	3,972	3,972	3,531	2,616	-	-
	32,464	32,464	6,922	3,946	2,497	1,330

NOTE 10:- BANK CREDIT

	Weighted average interest rate	Consolidated		The Company	
		December 31,		December 31,	
	2003	2002	2003	2002	2003
	%	Adjusted NIS in thousands			
Short-term credit, see Note 18	7	438,888	389,730	438,869	349,223
Current maturities of long-term loans, see Note 13		75,235	45,673	75,235	45,673
		514,123	435,403	514,104	394,896

As to financial covenant See Note 15a(5).

NOTE 11:- ACCOUNTS PAYABLE AND ACCRUALS

Consolidated		The Company	
December 31,		December 31,	
2002	2003	2002	2003
Adjusted NIS in thousands			

a. Trade payables:

	Consolidated		The Company	
Open accounts	60,002	63,499	46,448	43,983
Notes and checks	24,054	31,200	20,973	19,634
	84,056	94,699	67,421	63,617

NOTE 11:- ACCOUNTS PAYABLE AND ACCRUALS (Cont.)

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2003	2002	2003
	Adjusted NIS in thousands			
b. Other accounts payable:				
Payroll and related expenses	7,726	6,912	6,174	4,757
Provision for vacation pay	4,917	4,473	3,875	3,438
Government authorities (1)	52,178	96,416	43,942	89,391
Advances from trade receivables	-	5,004	-	-
Franchise fees to the Government of Israel	5,428	11,225	5,428	11,225
Accrued interest	4,306	1,846	4,306	1,846
Accrued expenses (2)	10,052	16,623	9,376	13,844
Deferred taxes	-	15,630	-	15,630
Others	-	853	84	477
	84,607	158,982	73,185	140,608

(1) Mainly includes a provision for taxes in respect of the realization of Partner shares during 2002 and 2003 (see Note 5b(2)(c)).

The Company paid an amount of NIS 71 million as an advance on account of capital gains tax in respect of the realization of Partner shares in 2002. As of December 31, 2003, the accumulated tax balance in respect of the above realization in the amount of NIS 83 million, was not yet paid due to a dispute with the tax authorities.

The financial statements contain a provision for the full tax liability relating to exercising Partner shares in 2003 and 2002.

(2) Consolidated and the Company includes balance with interested party in amount of adjusted NIS 128 thousand and adjusted NIS 76 thousand at December 31, 2003 and 2002, respectively.

NOTE 12:- SEVERANCE PAY LIABILITY (FUND)

Labor laws and agreements require the Group companies to pay severance pay to employees dismissed or leaving their employment under certain other circumstances.

The companies severance pay liability to their employees, is computed based on the number of years of employment multiplied by the most recent salary and, is covered primarily by purchase of insurance policies and by an accrual. The companies record the obligation as if it was payable at each balance sheet date on an undiscounted basis. The balance of the severance pay liability and the amount funded as above are as follows:

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2003	2002	2003
	Adjusted NIS in thousands			
Amount of severance pay liability	16,323	17,272	13,059	12,878