

**GILAT SATELLITE NETWORKS LTD.**  
(An Israeli Corporation)  
**1999 CONSOLIDATED FINANCIAL STATEMENTS**

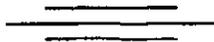
**PAGE 85 OF 136 PAGES**  
**EXHIBIT INDEX ON PAGE 131**

**GILAT SATELLITE NETWORKS LTD.**  
(An Israeli Corporation)  
**1999 CONSOLIDATED FINANCIAL STATEMENTS**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>REPORT OF INDEPENDENT AUDITORS</b>	<b>F-2</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS:</b>	
Balance sheets	F-3-F-4
Statements of income (loss)	F-5
Statements of changes in shareholders' equity	F-6
Statements of cash flows	F-7-F-9
Notes to financial statements	F-10-F-42

The amounts are stated in U.S. dollars (\$) in thousands.



Kesselman & Kesselman  
Certified Public Accountants (Isr.)  
Trade Tower, 25 Hamered Street  
Tel Aviv 68123 Israel  
P.O. Box 452 Tel Aviv 61003 Israel  
Telephone +972-3-7954555  
Facsimile +972-3-7954556

REPORT OF INDEPENDENT AUDITORS

To the shareholders of  
GILAT SATELLITE NETWORKS LTD.

We have audited the consolidated balance sheets of Gilat Satellite Networks Ltd. (the "Company") and its subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

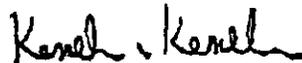
We did not audit the financial statements of a certain subsidiary, whose assets constitute 7.0% and 3.8% of total consolidated assets as of December 31, 1999 and 1998 respectively, and whose revenues constitute 12.9%, 13.4% and 16.7 % of total consolidated revenues for the years ended December 31, 1999, 1998 and 1997, respectively. The financial statements of the above subsidiary were audited by other independent auditors, whose report have been furnished to us, and our opinion, insofar as it relates to amounts included for this subsidiary, is based solely on the report of the other independent auditors.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other independent auditors provide a fair basis for our opinion.

In our opinion, based on our audits and the report of the other independent auditors, the aforementioned financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 1999 and 1998 and the results of their operations, changes in shareholders' equity and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles ("GAAP") in Israel.

As applicable to these financial statements Israeli GAAP vary in certain aspects from U.S. GAAP, as described in notes 7 and 15f.

As described in note 1g, the Company has restated its financial statements for the year ended December 31, 1998.



Kesselman & Kesselman  
Certified Public Accountants (Isr.)

Tel-Aviv, Israel.  
February 27, 2000,  
except for notes 8, 10b(5),  
16b(1) and 16c for which  
the date is June 5, 2000.

PAGE 87 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 131

**GILAT SATELLITE NETWORKS LTD.**  
 (An Israeli Corporation)  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31</b>	
	1999	1998
	U.S. \$ in thousands	
<b>A s s e t s</b> (note 14e)		
<b>CURRENT ASSETS</b> (note 13):		
Cash and cash equivalents	33,381	7,564
Short-term bank deposits and current maturities of long-term bank deposits (note 14a)	61,540	
Accounts receivable (note 14b):		
Trade	111,417	71,853
Other	71,982	27,378
Inventories (note 3)	81,060	*84,594
<b>Total current assets</b>	<b>359,380</b>	<b>191,389</b>
<b>INVESTMENTS AND NON-CURRENT RECEIVABLES:</b>		
Long-term bank deposits (note 14c)	50,000	40,701
Investment in associated companies (note 4)	14,054	15,228
Investment in other companies	13,133	1,500
Non-current receivables (note 14d)	31,347	2,173
	<b>108,534</b>	<b>59,602</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b> (note 5):		
Cost	198,555	118,357
Less - accumulated depreciation and amortization	38,742	23,446
	<b>159,813</b>	<b>94,911</b>
<b>OTHER ASSETS AND DEFERRED CHARGES,</b>		
net of accumulated amortization (note 6)	51,126	*55,382
<b>Total assets</b>	<b>678,853</b>	<b>401,284</b>

/s/ YOEL GAT ) Chairman of the Board of  
 Yoel Gat ) Directors and Chief  
 ) Executive Officer

/s/ AMIRAM LEVINBERG ) President, Chief Operating  
 Amiram Levinberg ) Officer and Director

PAGE 88 OF 136 PAGES  
 EXHIBIT INDEX ON PAGE 131

	December 31	
	1999	1998
	<u>U.S. \$ in thousands</u>	
<b>Liabilities and shareholders' equity</b>		
<b>CURRENT LIABILITIES (note 13):</b>		
Short-term bank credit (note 14e)	6,986	23,158
Accounts payable and accruals (note 14f):		
Trade	39,488	25,102
Accrued expenses	27,833	*39,642
Other	19,766	14,260
Total current liabilities	<u>94,073</u>	<u>102,162</u>
ACCRUED SEVERANCE PAY, net of amount funded (note 7)	1,868	1,218
OTHER LONG-TERM LIABILITIES (note 14g)	8,089	284
CONVERTIBLE SUBORDINATED NOTES (note 8)	75,000	75,000
COMMITMENTS AND CONTINGENT LIABILITY (notes 9 and 16c)		
<b>SHAREHOLDERS' EQUITY (note 10):</b>		
Share capital and additional paid in capital - ordinary shares of NIS 0.01 par value (authorized - 40,000,000 shares; issued and outstanding: December 31, 1999 - 21,147,298 shares; December 31, 1998 - 16,162,070 shares)	527,116	266,967
Accumulated other comprehensive income - currency translation adjustments	(2,557)	
Accumulated deficit	<u>(24,736)</u>	<u>*(44,347)</u>
Total shareholders' equity	<u>499,823</u>	<u>222,620</u>
Total liabilities and shareholders' equity	<u>678,853</u>	<u>401,284</u>

\* Restated, see note 1q.

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

PAGE 89 OF 131 PAGES  
EXHIBIT INDEX ON PAGE 131

F-4

**GILAT SATELLITE NETWORKS LTD.**  
 (An Israeli Corporation)  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

	Year ended December 31		
	1999	1998	1997
	U.S. \$ in thousands (except per share data)		
<b>REVENUES</b> (notes 15a and b)	337,873	155,335	103,690
<b>COST OF REVENUES</b>			
Cost of products sold and revenue rendered (note 15b)	220,139	86,603	58,742
Write-off of inventories associated with restructuring (note 11)	4,634	9,495	
	<u>224,773</u>	<u>96,098</u>	<u>58,742</u>
<b>GROSS PROFIT</b>	<u>113,100</u>	<u>59,237</u>	<u>44,948</u>
<b>RESEARCH AND DEVELOPMENT COSTS:</b>			
Expenses incurred	27,159	15,815	10,615
Less - grants (note 15c)	2,368	3,035	2,494
	<u>24,791</u>	<u>12,780</u>	<u>8,121</u>
Acquired research and development (note 2a)		80,000	
<b>RESEARCH AND DEVELOPMENT COSTS - net</b>	<u>24,791</u>	<u>92,780</u>	<u>8,121</u>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (note 15d)	<u>68,414</u>	<u>29,077</u>	<u>20,321</u>
	19,895	(62,620)	16,506
<b>RESTRUCTURING CHARGES</b> (note 11)	(356)	*11,989	
<b>OPERATING INCOME (LOSS)</b>	20,251	(74,609)	16,506
<b>FINANCIAL INCOME (EXPENSES) - net</b> (note 15e)	3,267	(1,247)	538
<b>WRITE-OFF OF INVESTMENTS ASSOCIATED WITH RESTRUCTURING</b> (note 11)	(896)	(2,700)	
<b>OTHER INCOME - net</b>		162	30
<b>INCOME (LOSS) BEFORE TAXES ON INCOME</b>	<u>22,622</u>	<u>(78,394)</u>	<u>17,074</u>
<b>TAXES ON INCOME</b> (note 12)	<u>2,475</u>	<u>286</u>	<u>130</u>
<b>INCOME (LOSS) AFTER TAXES ON INCOME</b>	20,147	(78,680)	16,944
<b>SHARE IN LOSSES OF ASSOCIATED COMPANIES</b> (note 4)	<u>536</u>	<u>703</u>	<u></u>
<b>NET INCOME (LOSS)</b>	<u>19,611</u>	<u>(79,383)</u>	<u>16,944</u>
<b>EARNINGS (LOSS) PER SHARE</b> (note 15f):			
Under U.S. GAAP:			
Basic	<u>\$0.96</u>	<u>*\$(7.18)</u>	<u>\$1.56</u>
Diluted	<u>\$0.92</u>	<u>*\$(7.18)</u>	<u>\$1.51</u>
Under Israeli GAAP:			
Basic	<u>\$0.83</u>	<u>*\$(6.37)</u>	<u>\$1.50</u>
Diluted	<u>\$0.83</u>	<u>*\$(6.37)</u>	<u>\$1.47</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF EARNINGS (LOSS) PER SHARE - IN THOUSANDS</b> (note 15f):			
Under U.S. GAAP:			
Basic	<u>20,447</u>	<u>11,059</u>	<u>10,895</u>
Diluted	<u>21,429</u>	<u>11,059</u>	<u>11,255</u>
Under Israeli GAAP:			
Basic	<u>25,177</u>	<u>12,121</u>	<u>11,448</u>
Diluted	<u>25,177</u>	<u>12,121</u>	<u>12,152</u>

\* Restated, see note 1q.

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

PAGE 90 OF 136 PAGES  
 EXHIBIT INDEX ON PAGE 137

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Number of ordinary shares	Share capital and additional paid-in capital	Accumulated other comprehensive income - currency translation adjustments	Retained earnings (accumulated deficit)	Total
	In thousands	U.S. \$	in thousands	in thousands	in thousands
<b>BALANCE AT JANUARY 1, 1997</b>	10,822	71,666		18,092	89,758
<b>CHANGES DURING 1997:</b>					
Net income				16,944	16,944
Employee stock options exercised (note 10b)	168	1,636			1,636
<b>BALANCE AT DECEMBER 31, 1997</b>	10,990	73,302		35,036	108,338
<b>CHANGES DURING 1998:</b>					
Net loss				*(79,383)	(79,383)
Issuance of share capital as consideration for the acquisition of GE Capital Spacenet Services, Inc. ("Spacenet") (note 2)	5,000	191,250			191,250
Employee stock options exercised (note 10b)	172	2,415			2,415
<b>BALANCE AT DECEMBER 31, 1998</b>	16,162	266,967		(44,347)	222,620
<b>CHANGES DURING 1999:</b>					
Comprehensive income:					
Net income				19,611	19,611
Other comprehensive income - currency translation adjustments			(2,557)		(2,557)
Total comprehensive income			(2,557)	19,611	17,054
Issuance of share capital in a public offering in February 1999 (note 10a)	4,711	254,470			254,470
Employee stock options exercised (note 10b)	274	5,679			5,679
<b>BALANCE AT DECEMBER 31, 1999</b>	21,147	527,116	(2,557)	(24,736)	499,823

\* Restated, see note 1q.

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

F-6

**GILAT SATELLITE NETWORKS LTD.**  
(An Israeli Corporation)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31		
	1999	1998	1997
	U.S. \$ in thousands		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	19,611	*(79,383)	16,944
Adjustments required to reconcile net income (loss) to net cash used in operating activities (a)	<u>(63,352)</u>	<u>71,003</u>	<u>(24,873)</u>
Net cash used in operating activities	<u>(43,741)</u>	<u>(8,380)</u>	<u>(7,929)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment, net of related grants	(91,966)	(15,759)	(25,935) (951)
Deferred charges		(2,680)	
Deconsolidation of subsidiary consolidated in previous years (b)	(11,885)	(3,013)	(3,497)
Investment in companies	(20,000)	10,000	(10,000)
Short-term bank deposit	(50,000)	(681)	(40,000)
Long-term bank deposits	(500)	(8,500)	
Long-term loans to associated company		18	
Acquisition of subsidiary consolidated for the first time (c)	172	1	25
Proceeds from disposal of property plant and equipment		(2,000)	
Customer acquisition cost	<u>(174,179)</u>	<u>(22,614)</u>	<u>(80,358)</u>
Net cash used in investing activities			
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Issuance of share capital in a public offering in February 1999 (note 10a)	254,470		
Employee stock options exercised and paid (note 10b)	5,679	2,415	1,636
Issuance of convertible subordinated notes, net of issuance expenses of \$ 3,182,000 (note 8)			71,818
Short-term bank credit - net	<u>(16,172)</u>	<u>20,439</u>	<u>2,137</u>
Net cash provided by financing activities	<u>243,977</u>	<u>22,854</u>	<u>75,591</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<u>(240)</u>		
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	25,817	(8,140)	(12,696)
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>7,564</u>	<u>15,704</u>	<u>28,400</u>
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>33,381</u>	<u>7,564</u>	<u>15,704</u>
<b>SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION - cash paid during the year for:</b>			
Interest	<u>6,096</u>	<u>5,786</u>	<u>2,832</u>
Income tax	<u>1,989</u>	<u>127</u>	<u>40</u>

\* Restated, see note 1q.

**PAGE 92 OF 131 PAGES  
EXHIBIT INDEX ON PAGE 1**

*Cash from BE  
+ 15mm in '99*

*Israeli grants  
revenue*

**GILAT SATELLITE NETWORKS LTD.**  
(An Israeli Corporation)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31		
	1999	1998	1997
	U.S. \$ in thousands		
<b>(a) Adjustments required to reconcile net income (loss) to net cash used in operating activities:</b>			
Income and expenses not involving cash flows:			
Depreciation and amortization	22,652	5,129	3,069
Acquired research and development		80,000	
Share in losses of associated companies and unrealized gains on sales to associated companies	1,674	1,240	
Gain on decrease in percentage of shareholding in a subsidiary		(1,344)	
Increase in accrued severance pay - net	650	355	256
Interest accrued on bank deposits	(3,542)	(20)	(683)
Write down of investments due to restructuring		1,235	
Transaction gain	(444)		
Capital loss on sale of property, plant and equipment	98		
Deferred income taxes - net	265		(3)
Other	(7)	574	2
	<u>21,346</u>	<u>87,169</u>	<u>2,641</u>
<b>Changes in certain asset and liability items:</b>			
Decrease (increase) in accounts receivable:			
Trade	(40,013)	(35,157)	(12,907)
Other (including non-current receivables)	(79,452)	10,257	(4,091)
Increase (decrease) in accounts payable and accruals:			
Trade	14,655	3,886	1,046
Accrued expenses	(6,769)	12,047	2,279
Other (including other long-term liabilities)	13,016	(5,735)	706
Decrease (increase) in inventories	13,865	(1,464)	(14,547)
	<u>(84,698)</u>	<u>(16,166)</u>	<u>(27,514)</u>
	<u>(63,352)</u>	<u>71,003</u>	<u>(24,873)</u>
<b>(b) Deconsolidation of subsidiary consolidated in previous years, see also note 4a:</b>			
Assets and liabilities of the subsidiary previously consolidated at date of deconsolidation:			
Working capital (excluding cash and cash equivalents)		(2,797)	
Property, plant and equipment and deferred charges		1,003	
Gain on decrease in percentage of shareholding		1,344	
Share in shareholders' equity of the subsidiary after deconsolidation		(2,230)	
		<u>(2,680)</u>	

**PAGE 93 OF 136 PAGES  
EXHIBIT INDEX ON PAGE**

**GILAT SATELLITE NETWORKS LTD.**  
(An Israeli Corporation)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<u>Year ended</u> <u>December 31, 1998</u> <u>U.S. \$ in thousands</u>
(c) Acquisition of subsidiary consolidated for the first time, see also note 2: Assets and liabilities of the subsidiary at date of acquisition:	
Working capital (excluding cash and cash equivalents)	*(30,247) (35,113)
Property and equipment	(5,396)
Other assets	*(46,958)
Goodwill and identifiable intangible assets arising on acquisition	(80,000)
Acquired research and development	6,759
Accrued expenses relating to the acquisition	
Issuance of share capital in connection to the acquisition	<u>190,973</u> <u>18</u>

\* Restated, see note 1q.

**SUPPLEMENTARY INFORMATION ON INVESTING AND FINANCING ACTIVITIES NOT  
INVOLVING CASH FLOWS**

On December 31, 1998, the Company acquired Spacenet. The acquisition was made in exchange for ordinary shares of the Company, see note 2.

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

PAGE 99 OF 136 PAGES  
EXHIBIT INDEX ON PAGE

**GILAT SATELLITE NETWORKS LTD.**  
(An Israeli Corporation)  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies, applied on a consistent basis, are as follows (see also q. below):

**a. General:**

1) Nature of operations

Gilat Satellite Networks Ltd. (the "Company") and its wholly-owned subsidiaries (the "Group"), operate in one business segment - design, development, manufacturing, marketing and service of very small aperture terminal ("VSAT") satellite earth stations.

As to the principal markets and customers, see note 15a.

2) Functional currency

The currency of the primary economic environment in which the operations of the Company and most of its subsidiaries are conducted is the U.S. dollar ("dollar"). Substantially, all the sales of the Group's products are made outside Israel in non-Israeli currencies (mainly the dollar). Service income is also derived mainly in dollars. Thus, the functional currency of these companies is the dollar.

For the Company and those subsidiaries whose functional currency is the dollar transactions and balances originally denominated in dollars are presented at their original amounts. Balances in non-dollar currencies are translated into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions and other items (stated below) reflected in the income statements, the following exchange rates are used: (i) for transactions: exchange rates at transaction dates or average rates and (ii) for other items (derived changes in inventories, etc.): historical exchange rates. The resulting currency transaction gains or losses are carried to financial income or expenses, as appropriate.

The financial statements of certain European subsidiaries whose functional currency is their local currency, are translated into dollars in accordance with the principles set forth in Statement of Financial Accounting Standards ("FAS") No. 52 of the Financial Accounting Standards Board of the United States ("FASB"), "Foreign Currency Translation": assets and liabilities are translated using the year-end rate of exchange; results of operations are translated at average exchange rates during the year. The resulting aggregate translation adjustments are reported as a component of "accumulated other comprehensive income".

PAGE 95 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 1

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):**

**3) Accounting principles**

The financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Israel. As applicable to these financial statements, Israeli GAAP vary in certain aspects from U.S. GAAP, as described in notes 7 and 15f.

**4) Use of estimates in preparation of financial statements**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

**b. Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

**c. Cash equivalents and short-term bank deposits**

The Group considers all highly liquid investments, which include short-term bank deposits (up to three months from date of deposit) that are not restricted as to withdrawal or use, to be cash equivalents. Bank deposits with an original maturity of more than three months but less than one year (from date of deposit) are presented as "short-term bank deposits".

**d. Allowance for doubtful accounts**

The allowance for doubtful accounts is determined for specific debts doubtful of collection.

**e. Inventories**

Inventories are valued at the lower of cost or market. Cost is determined as follows: raw materials and components - on the weighted average basis; labor and overhead - on the basis of actual manufacturing costs.

**PAGE 96 OF 136 PAGES  
EXHIBIT INDEX ON PAGE**

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

f. Investment in associated companies

In these financial statements, associated companies are companies controlled to the extent of 20% or more (which are not subsidiaries), or companies less than 20% controlled which comply with the condition relating to "significant influence".

The investment in associated companies is accounted for by the equity method. Profits on intercompany sales - not realized outside the Group - were eliminated.

g. Investment in other companies

The investment in these companies is stated at cost. Any decrease in value of investments which is other than temporary is recorded when it becomes known.

h. Property, plant and equipment

These property, plant and equipment are stated at cost. Property, plant and equipment of acquired subsidiaries are included at their fair value at date of acquisition of these subsidiaries.

The assets are depreciated by the straight-line method, on the basis of their estimated useful life.

Annual rates of depreciation are as follows:

	<u>%</u>
Buildings	2
Computers and electronic equipment	8-33
Office furniture and equipment	6;10;20
Vehicles	15

Equipment leased to others under operating lease contracts is depreciated by the straight-line method over the term of the lease (usually 5 years), which is shorter than the useful life of the equipment.

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.

i. Other assets and deferred charges:

1) Other assets

Goodwill and other identifiable intangible assets (see note 2a) are stated at cost and amortized by the straight-line method over an average period of 15 years.

2) Deferred charges

Issuance costs of the convertible subordinated notes (see note 8) are amortized by the straight-line method over the period from issuance date to maturity date. Customer acquisition cost is amortized by the straight-line method over the contract term.

PAGE 97 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 1

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):**

**j. Revenue recognition:**

**1) Sale of products**

Revenue from sales of products is recognized upon shipment to the customer. Cost of sales includes an estimate of costs associated with installation and warranty.

The present values of payments due under sales-type-lease contracts are recorded as revenues and cost of sales is charged with the book value of equipment at the time of shipment. Future interest income is deferred and recognized over the related lease term.

Revenues from long-term contracts are recognized on the percentage-of-completion method, measured using the ratio of material costs incurred to date to estimated total material costs for each contract.

**2) Service revenue**

Service revenue is recognized ratably over the contractual period or as services are performed.

**3) Operating leases**

Revenue from lease of equipment is recognized ratably over the lease period.

**k. Research and development**

Research and development expenses are charged to income as incurred. Grants and participations received from the Israeli Government for development of approved projects are recognized as a reduction of expenses when the related cost is incurred. No liability is recorded for funds received from the Israeli Government because the Company is not obligated to repay any funds regardless of the outcome of the research and development (see also note 9a).

**l. Income taxes:**

- 1) Deferred income taxes are computed for temporary differences between the assets and liabilities as measured in the financial statements and for tax purposes, at the tax rates expected to be in effect when these differences reverse.

As to the main factors in respect of which deferred income taxes have been provided, see note 12d.

- 2) The Company may incur additional tax liability in the event of intercompany dividend distribution; no additional tax has been provided, since it is the Company's policy not to distribute, in the foreseeable future, dividends which would result in additional tax liability.
- 3) Taxes which would apply in the event of disposal of investments in subsidiaries (all of which are non-Israeli subsidiaries) have not been taken into account in computing the deferred taxes, as it is the Company's policy to hold these investments indefinitely.
- 4) Upon the distribution of dividends from the tax-exempt income of approved enterprises (see also note 12a(1)), the amount distributed will be subject to tax at the rate that would have been applicable had the Company not been exempted from payment thereof. The Company intends to permanently reinvest the amounts of tax exempt income. Therefore, no deferred income taxes have been provided in respect of such tax-exempt income.

**PAGE 18 OF 176 PAGES  
EXHIBIT INDEX ON PAGE 31**

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):**

**m. Comprehensive income**

The Company presents its comprehensive income in the consolidated statements of changes in shareholders' equity.

**n. Impairment of long-lived assets**

FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" requires that long-lived assets, identifiable intangibles and goodwill related to those assets to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under FAS 121, if indicators of impairment are present, the existence of impairment is identified by comparing the carrying amount of the potentially impaired asset to the undiscounted cash flows from use and eventual disposition of that asset. If the carrying amount of the asset being evaluated is greater than the undiscounted cash flows from use and eventual disposition of that asset, then impairment is measured based on the excess, if any, of the carrying amount over the fair value of that asset.

**o. Recently issued accounting pronouncements:**

- 1) In June 1998, the FASB issued FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". FAS 133 established new accounting and reporting standards for derivatives and hedging activities. FAS 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. FAS 133 is effective for calendar-year companies from January 1, 2000. The Company is currently evaluating the impact FAS 133 will have on its financial statements.
- 2) In December 1999, the United States Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No.101 ("SAB 101"), "Revenue Recognition in Financial Statements". SAB 101 summarizes the SEC's interpretation of the application of GAAP to revenue recognition.

The Company is currently evaluating the impact that SAB 101 will have on its financial statements.

**p. Reclassification**

Certain prior years figures have been reclassified in order to conform with the 1999 presentation.

**q. Restatement**

In 1999, the Company restated its financial statements as of December 31, 1998 and for the year then-ended, with respect to the restructuring charges recorded as a result of the acquisition of Spacenet (see also notes 2 and 11).

**PAGE 99 OF 106 PAGES  
EXHIBIT INDEX ON PAGE 31**

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):**

The effect of the restatement is as follows:

1) Balance sheet as of December 31, 1998:

	<u>As previously reported</u>	<u>Effect of restatement</u>	<u>As reported in these financial statements</u>
	<u>U.S. \$ in thousands</u>		
Inventories	72,594	12,000	84,594
Other assets and deferred charges, net of accumulated amortization	76,382	(21,000)	55,382
Accrued expenses	(50,892)	11,250	(39,642)
Shareholders' equity - accumulated deficit	46,597	(2,250)	44,347

2) Net loss for the year ended December 31, 1998:

	<u>U.S. \$ in thousands</u>
Net loss, as previously reported	(81,633)
Effect of restatement - restructuring charges	<u>2,250</u>
Net loss, as reported in these financial statements	<u>(79,383)</u>

3) Loss per share for the year ended December 31, 1998:

a) Under U.S. GAAP:

	<u>U.S. \$</u>
Loss per share - basic and diluted, as previously reported	(7.38)
Effect of restatement	<u>0.20</u>
Loss per share - basic and diluted, as reported in these financial statements	<u>(7.18)</u>

b) Under Israeli GAAP:

Loss per share - basic and diluted, as previously reported	(6.55)
Effect of restatement	<u>0.18</u>
Loss per share - basic and diluted, as reported in these financial statements	<u>(6.37)</u>

PAGE 100 OF 131 PAGES  
EXHIBIT INDEX ON PAGE 131

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 2 - ACQUISITION OF SPACENET:**

- a. On December 31, 1998, the Company acquired from GE American Communications, Inc. ("GE Americom") the entire share capital of GE Capital Spacenet, Inc., which was renamed Spacenet, Inc. ("Spacenet"), as well as the entire share capital of two European affiliates of Spacenet. Spacenet is a United States corporation, which offers a wide range of satellite-based networking products and services through VSAT networks. Prior to the acquisition, Spacenet was the Company's largest customer (see note 15a).

In consideration, the Company issued 5,000,000 ordinary shares of NIS 0.01 par value to GE Americom and its affiliates; these shares represented approximately 30% of the Company's outstanding shares at date of issuance (23.6% as of December 31, 1999).

The acquisition of Spacenet was accounted for by the purchase method. The purchase price - of \$ 191 million - is based on an average market price of the Company's ordinary shares a few days before and after the announcement of the transaction.

The Company has allocated the excess of the purchase price over the fair value of net tangible assets acquired; an amount of \$ 80 million out of the total acquisition cost was attributed to in-process research and development, the technological feasibility of which has not yet been established and for which there is no alternative future use. Consequently, as of December 31, 1998, the Company recorded a one-time non-cash charge of \$ 80 million.

The balance of the excess purchase price in the amount of \$ 51 million was attributed to goodwill and other intangible assets.

Following the acquisition, Spacenet incurred a charge of approximately \$ 12.2 million, (the amount is after the effect of restatement, see note 1q), to eliminate unnecessary inventory and property, plant and equipment. The charges were taken into consideration in the allocation of the purchase price. In 1999, there were no significant adjustments to these charges, except for the effect of the restatement mentioned above.

- b. Hereafter are the unaudited proforma combined condensed income statements for the years ended December 31, 1998 and 1997, assuming that the acquisition of Spacenet had occurred on January 1, 1998 and 1997, respectively, after giving effect to certain adjustments, including amortization of identifiable intangible assets of Spacenet, the elimination of intercompany transactions and profits not yet realized outside the Group, and excluding nonrecurring items which are acquired research and development costs and costs associated with the 1998 restructuring.

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 - ACQUISITION OF SPACENET (continued):**

The proforma financial information is not necessarily indicative of the combined results that would have been attained had the acquisition taken place at the beginning of 1997, nor is it necessarily indicative of future results.

	<u>Year ended December 31</u>	
	<u>*1998</u>	<u>*1997</u>
	<u>U.S. \$ in thousands</u>	
	<u>(except per share data)</u>	
	<u>(Unaudited)</u>	
Revenues	<u>237,642</u>	<u>189,930</u>
Net loss	<u>(11,286)</u>	<u>(14,221)</u>
Loss per share - under U.S. GAAP - basic and diluted	<u>\$(0.70)</u>	<u>\$(0.89)</u>

\* Restated, see note 1q.

**NOTE 3 - INVENTORIES:**

	<u>December 31</u>	
	<u>1999</u>	<u>1998</u>
	<u>U.S. \$ in thousands</u>	
Raw materials and components	29,431	7,668
Work in process	10,031	9,476
Finished products	24,648	66,553
Cost and estimated earnings in excess of billings on uncompleted contracts*	<u>16,950</u>	<u>897</u>
	<u>81,060</u>	<u>84,594</u>

\* Composed as follows:

Cost incurred on uncompleted contracts	21,839	3,226
Estimated earnings	<u>9,167</u>	<u>3,205</u>
	31,006	6,431
Less - billings	<u>(14,056)</u>	<u>(5,534)</u>
	<u>16,950</u>	<u>897</u>

PAGE 102 OF 116 PAGES  
EXHIBIT INDEX ON PAGE 137

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 4 - INVESTMENTS IN ASSOCIATED COMPANIES:**

- a. In April 1998, a then wholly-owned subsidiary - Global Village Telecom (Antilles) N.V. ("GVT") - completed a private placement with an international group of investors, which invested \$ 40 million in GVT and was issued approximately 91.8% of its share capital. The Company invested \$ 2.5 million in GVT as part of the private placement. Following the private placement, the Company's shareholding was reduced to 5.7%, generating a gain of \$ 1,344,000, included in other income - net, and GVT became an associated company, since the Company has retained significant influence therein. Approximately 2.5% of the share capital GVT is held by the Company's senior employees and directors.

The Company provided a \$ 7.5 million loan convertible into GVT's common stock which, in the event of conversion, would confer upon the Company a further 15% shareholding in GVT. The Company holds warrants upon exercise of which it would obtain a maximum of 40% of the share capital of GVT, under certain circumstances.

In April 2000, the Company and the other shareholders in GVT entered into an agreement pursuant to which the latter are to exchange all of their rights in GVT for the rights of GVT in two Brazilian entities formed to provide telephone and other communications services in south central Brazil and a cash payment of \$ 5.3 million. As part of the transaction, the Company granted a \$ 40 million loan to a new unrelated entity formed by those investors, in exchange for a note convertible into common shares of the new entity equal to approximately 9.1% of the then outstanding shares. Following the transaction, the Company, together with its employees, is to hold 100% of GVT.

- b. The investments are composed as follows:

	<u>December 31</u>	
	<u>1999</u>	<u>1998</u>
	<u>U.S. \$ in thousands</u>	
Shares:		
Cost	8,508	8,508
Share in accumulated losses	<u>(3,454)</u>	<u>(1,780)</u>
	5,054	6,728
Long-term loans*	<u>9,000</u>	<u>8,500</u>
Total investments	<u>14,054</u>	<u>15,228</u>

\*The loans are denominated in dollars, bear no interest and maturity dates have not yet been determined.

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT:**

a. Composition of assets, grouped by major classifications, is as follows:

	Cost		Accumulated depreciation and amortization	
	December 31		December 31	
	1999	1998	1999	1998
	U.S. \$ in thousands		U.S. \$ in thousands	
Buildings and land	34,177	26,094	1,033	644
Computers and electronic equipment	83,325	37,788	21,150	12,780
Equipment leased to others	40,999	31,322	13,741	7,556
Office furniture and equipment	8,603	6,074	1,955	2,194
Leasehold improvements	3,536	1,681	733	163
Vehicles	393	289	130	109
	<u>171,033</u>	<u>103,248</u>	<u>38,742</u>	<u>23,446</u>
Building under construction	<u>27,522</u>	<u>15,109</u>		
	<u>198,555</u>	<u>118,357</u>	<u>38,742</u>	<u>23,446</u>

b. Depreciation and amortization expense totaled \$ 18,562,000, \$ 4,650,000 and \$ 2,787,000 in 1999, 1998 and 1997, respectively.

**NOTE 6 - OTHER ASSETS AND DEFERRED CHARGES:**

	Original amounts		Unamortized balance	
	December 31		December 31	
	1999	1998	1999	1998
	U.S. \$ in thousands		U.S. \$ in thousands	
Goodwill and identifiable intangible assets resulting from the acquisition of Spacenet (see note 2)	51,451	50,573	47,195	50,573
Issuance costs of convertible subordinated notes (see note 8)	3,182	3,182	1,990	2,445
Deferred income taxes (see note 12d)	141	364	141	364
Other	2,000	2,000	1,800	2,000
	<u>56,774</u>	<u>56,119</u>	<u>51,126</u>	<u>55,382</u>

PAGE 104 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 137

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 - SEVERANCE PAY:

- a. Israeli law generally requires payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The Company's severance pay liability to its Israeli employees, based upon the number of years of service and the latest monthly salary, is partly covered by purchase of insurance policies. Under labor agreements, these insurance policies are, subject to certain limitations, the property of the employees.

The amounts accrued and the portion funded by the insurance policies are reflected in the balance sheets as follows:

	December 31	
	1999	1998
	U.S. \$ in thousands	
Accrued severance pay	4,968	3,608
Less - amounts funded	3,100	2,390
Unfunded balance	1,868	1,218

The amounts of accrued severance pay as above cover the severance pay liability of the Company in accordance with labor agreements in force and based on salary components which, in management's opinion, create entitlement to severance pay.

The Company may only make withdrawals from the amounts funded by insurance policies for the purpose of paying severance pay.

Under Israeli GAAP, amounts funded by purchase of insurance policies, as above, are deducted from the related severance pay liability. Under U.S. GAAP, the amounts funded should be presented as a long-term investment among the Group's assets.

- b. Severance pay expense totaled \$ 1,807,000, \$ 1,222,000 and \$ 838,000 in 1999, 1998 and 1997, respectively.

NOTE 8 - CONVERTIBLE SUBORDINATED NOTES

The notes bear interest at an annual rate of 6.5%, payable June 1 and December 1 of each year, commencing December 1, 1997 and are due on June 1, 2004. Unless previously redeemed, the notes are convertible by the holders, at any time through maturity, into ordinary shares of the Company at a conversion price of \$ 42 per share, subject to adjustment under certain circumstances. The notes are redeemable at the option of the Company, in whole or in part, at any time on or after June 5, 2000 at the redemption price, plus interest accrued to the redemption date.

On May 1, 2000, the Company published a notice of optional redemption of the notes on June 5, 2000, at 102% of the principal amount thereof plus interest accrued and unpaid as of the redemption date.

Through June 5, 2000, the notes have been converted into 1,785,690 ordinary shares.

PAGE 105 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 131

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - COMMITMENTS:

a. Royalty commitments:

- 1) The Company is committed to pay royalties to the Israeli Government on proceeds from sale of products in the research and development of which the Government participated by way of grants. At the time the participations were received, successful development of the related projects was not assured. Under the terms of the Company's funding from the Israeli Government, royalties of 3%-5% are payable on sales of products developed from a project so funded, up to 100% of the dollar-linked grant received; as from January 1, 1999 with the addition of the annual interest rate based on LIBOR. In the case of failure of a project that was partly financed by royalty-bearing Government participations, the Company is not obligated to pay such royalties to the Israeli Government.

As of December 31, 1999, the balance of the amount received which is subject to repayment under this royalty agreements on future sales, is \$ 1.8 million.

- 2) The Company is committed to pay royalties to the U.S. - Israel Science and Technology Foundation ("USISTF") on proceeds from sale of products in the research and development of which the USISTF participated by way of grants. At the time the participations were received, successful development of the related projects was not assured. Under the terms of the Company's funding from the USISTF, royalties of 2% per annum are payable on sales of products developed from a project so funded, up to 100% of the dollar grant received. In case of failure of a project that was partly financed by royalty-bearing USISTF participations, the Company is not obligated to pay such royalties to the USISTF.

b. Commitment in respect of building under construction

As of December 31, 1999, the Company is committed to pay an additional \$ 5.1 million to complete the construction of a building.

c. Lease commitments

Minimum lease commitments of certain subsidiaries under operating lease agreement in respect of premises occupied by them, at rates in effect as of December 31, 1999, are as follows:

	<u>\$ in thousands</u>
Year ending December 31:	
2000	5,502
2001	3,966
2002	3,489
2003	3,452
2004 and thereafter	<u>5,223</u>
	<u>21,632</u>

Rent expense totaled \$ 4,314,000, \$ 208,000 and \$ 175,000 in 1999, 1998 and 1997, respectively.

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 9 - COMMITMENTS (continued):**

**d. Commitments in respect of space segment services**

All the required space segment services necessary to meet the terms of customer contracts are obtained from either GE Americom or unrelated third parties under long-term contracts ranging from one to eleven years.

Future minimum payments due to mainly GE Americom for space segment services as of December 31, 1999, are as follows:

	<u>\$ in thousands</u>
Year ending December 31:	
2000	25,952
2001	23,759
2002	22,239
2003	22,587
2004 and thereafter	<u>16,629</u>
	<u>111,166</u>

**e. Agreements relating to the Company's products**

Under an agreement between Gilat Communications Ltd. ("Gilat Communications"), a related party, and the Company, Gilat Communications has been granted an exclusive right to market the lines of the satellite communications products and related components and options and to provide services with such products in Israel and areas controlled by the Palestinian Authority through October 31, 2002. The agreement also provides for Gilat Communications to be a non-exclusive distributor of the Company in South Africa.

**NOTE 10 - SHAREHOLDERS' EQUITY:**

**a. Share capital:**

- 1) The Company's shares are traded in the United States on the Nasdaq National Market under the symbol GILTF.
- 2) The February 1999 Public Offering

Under a prospectus published in the United States on February 2, 1999, 5,456,750 ordinary shares of NIS 0.01 par value were offered in a public offering (the "offering"): 4,711,750 ordinary shares by the Company (including underwriters option which was fully exercised) and 745,000 ordinary shares by certain shareholders, for \$ 57 per share.

The net proceeds to the Company - approximately \$ 254 million - are net of 4% underwriting discount and offering costs of \$ 3.4 million.

PAGE 107 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 137

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 10 - SHAREHOLDERS' EQUITY (continued):**

**b. Stock options:**

- 1) In January 1993, the Company adopted the following 1993 Stock Option Plans (the "1993 Plans"):
  - a) An Incentive and Restricted Stock Option Plan for employees who are United States residents (the "1993 United States Plan"), which provides for the grant of:
    - (1) Incentive Stock Options as defined under Section 422 of the Internal Revenue Code of 1986 (as amended) (the "1993 Incentive Options"); and
    - (2) Restricted Stock Options (the "1993 Restricted Options").
  - b) A Section 102 Stock Option/Stock Purchase Plan promulgated under section 102 of the Israeli Income Tax Ordinance (the "1993 Israeli Plan"), for Israeli employees.

In June 1995, the Company adopted the following 1995 Stock Option Plans, as amended in 1997, 1998 and 1999 (the "1995 Plans"):

- a) An Incentive and Restricted Stock Option Plan for employees who are United States residents (the "1995 United States Plan"), which provides for the grant of:
  - (1) Incentive Stock Options as defined under Section 422 of the Internal Revenue Code of 1986 (as amended) (the "1995 Incentive Options"); and
  - (2) Restricted Stock Options (the "1995 Restricted Options").
- b) A Section 102 Stock Option/Stock Purchase Plan promulgated under section 102 of the Israeli Income Tax Ordinance (the "1995 Israeli Plan"), for Israeli employees.
- c) Advisory Board Stock Option Plan (the "1995 Advisory Board Plan"), which provides for the grant of options to members of the Advisory Board who are not eligible for tax benefits under any of the other plans.

The 1993 and 1995 Plans provide for the grant by the Company of options and/or rights to purchase ordinary shares to officers, directors, key employees or advisors of the Company and any of its subsidiaries.

The 1993 and 1995 Plans will remain in force for 10 years from the dates of approval, unless terminated earlier by the Board of Directors.

PAGE 108 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 137

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 10 - SHAREHOLDERS' EQUITY (continued):**

Details of the options and/or rights under the 1993 Plans and the 1995 Plans (as amended in 1997, 1998 and 1999) are as follows:

	<u>December 31</u>	
	<u>1999</u>	<u>1998</u>
	<u>Number of ordinary shares</u>	
Total number authorized:		
The 1993 Plans:		
The United States Plan	95,550	95,550
The Israeli Plan	<u>222,950</u>	<u>222,950</u>
	<u>318,500</u>	<u>318,500</u>
The 1995 Plans:		
The United States Plan	2,440,000	1,940,000
The Israeli Plan	2,120,000	1,620,000
The Advisory Board Plan	<u>150,000</u>	<u>150,000</u>
	<u>4,710,000</u>	<u>3,710,000</u>
	5,028,500	4,028,500
Options granted	<u>4,214,385</u>	<u>2,228,961</u>
Available for future grant	<u>814,115</u>	<u>1,799,539</u>

The exercise price per share under the 1993 and 1995 Incentive Options Plans shall not be less than the market price of an ordinary share at the date of grant (and, in the case of an option holder who owns more than 10% of the voting shares of the Company - 110% of the market value at the date of grant).

The exercise price per share under the 1993 and 1995 Restricted Options Plans is to be determined by a committee appointed by the Board of Directors (the "Stock Option Committee"), in accordance with the terms of the plan.

The rights of the ordinary shares obtained upon exercise of the options will be identical to those of the other ordinary shares of the Company

The exercise and/or purchase price per share under the 1993 and 1995 Israeli Plans is to be determined by the Stock Option Committee. Section 102 of the Israeli Income Tax Ordinance and the rules promulgated thereunder provide that the Company will be allowed to claim as an expense for tax purposes the amounts credited to the employees as a benefit when the related capital gains tax is payable by the employee.

The exercise price per share under the 1995 Advisory Board Plan is to be determined by the Stock Option Committee, in accordance with the terms of the plan.

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - SHAREHOLDERS' EQUITY (continued):

Most of the above options become exercisable over a vesting period of four years (1/16 of the options every quarter). The options will expire 10 years after the date of grant.

- 2) A summary of the status of the plans as of December 31, 1999, 1998 and 1997, and changes during the years ended on those dates, is presented below:

	Year ended December 31					
	1999		1998		1997	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Options outstanding at beginning of year	1,886,538	32.93	1,089,203	24.52	597,674	14.00
Changes during the year:						
Granted	2,286,500	52.15	1,027,400	42.84	666,200	30.23
Exercised	(256,145)	21.82	(156,565)	14.50	(167,138)	9.86
Repriced*:						
Old exercise price			(664,200)	30.26		
New exercise price			664,200	23.25		
Forfeited	(301,076)	53.46	(73,500)	22.97	(7,533)	19.52
Options outstanding at end of year	<u>3,615,817</u>	44.16	<u>1,886,538</u>	32.93	<u>1,089,203</u>	24.52
Options exercisable at year-end	<u>816,502</u>	35.82	<u>217,128</u>	17.56	<u>201,268</u>	15.88
Weighted average fair value of options granted during the year	<u>\$24.42</u>		<u>\$17.72</u>		<u>\$11.90</u>	

\* In January 1998, 664,200 options awarded in earlier years, with a weighted average exercise price of \$ 30.26 per share, were repriced to a weighted average exercise price of \$ 23.25 per share. The revised exercise price is equal to the price of the shares on the date of the repricing.

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - SHAREHOLDERS' EQUITY (continued):

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year ended December 31		
	1999	1998	1997
Dividend yield	<u>0%</u>	<u>0%</u>	<u>0%</u>
Expected volatility	<u>42.6%</u>	<u>24.9%</u>	<u>24.8%</u>
Risk-free interest rate	<u>5.0%</u>	<u>5.0%</u>	<u>6.1%</u>
Expected average lives - in years	<u>3.0</u>	<u>3.0</u>	<u>3.0</u>

The following table summarizes information about options outstanding and exercisable at December 31, 1999:

Range of exercise price	Options outstanding			Options exercisable	
	Number outstanding at December 31, 1999	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 1999	Weighted average exercise price
\$		Years	\$		\$
7.5 - 12.0	73,742	5.50	9.45	71,334	9.15
12.5 - 22.0	39,972	6.39	18.73	25,409	19.90
22.5 - 25.0	601,728	7.32	23.29	326,724	23.30
25.5 - 40.0	169,050	8.43	36.03	23,108	35.16
40.5 - 50.0	1,580,375	9.24	46.47	98,296	47.79
50.5 - 77.0	<u>1,150,950</u>	9.16	56.21	<u>271,631</u>	55.11
	<u>3,615,817</u>	8.75	44.16	<u>816,502</u>	35.82

3) In December 1992, the Company granted options outside of any stock option plan to two then officers. One officer, who has since again become an officer of the Company, was granted an option to purchase 24,500 ordinary shares, at an exercise price of \$ 0.33 per ordinary share, and the other was granted an option to purchase 33,333 ordinary shares at an exercise price of \$ 12.00 per share, both on terms and conditions comparable to those provided for under the 1993 Plans. As of December 31, 1999, 33,333 of the options were exercised at an exercise price of \$ 12.00 per share. The options will expire 10 years after the date of grant.

4) Accounting treatment of the plans

As permitted by FAS No. 123 - "Accounting for Stock-Based Compensation", the Company accounts, under Israeli and U.S. GAAP, for its stock option plans ("the plans") using the treatment prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, compensation cost for employee stock option plans is measured using the intrinsic value based method of accounting.

PAGE 111 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 131

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 10 - SHAREHOLDERS' EQUITY (continued):**

Accordingly, the difference, if any, between the quoted market price of the shares on the date of the grant of the options and the exercise price of such options will be charged to income over the expected service period (usually - four years). The amount of the difference will be correspondingly credited to capital surplus.

No compensation cost has been charged against income in the years ended December 31, 1999, 1998 and 1997, because the exercise prices of the options granted in these years were equal to the market value of the shares at the date of grant.

Had compensation cost for the Company's plans been determined based on the fair value at the grant dates for awards granted since 1995, consistent with the method of FAS 123 the Company's net income (loss) and earnings (loss) per share would have been reduced to the proforma amounts indicated below:

	Year ended December 31					
	1999		1998		1997	
	As reported	Pro forma	As reported	Pro forma	As reported	Pro forma
Net income (loss) - in thousands of dollars	<u>19,611</u>	<u>(335)</u>	<u>*(79,383)</u>	<u>*(83,770)</u>	<u>16,944</u>	<u>14,876</u>
Earnings (loss) per under U.S. GAAP share - in dollars:						
Basic	<u>0.96</u>	<u>(0.02)</u>	<u>*(7.18)</u>	<u>*(7.57)</u>	<u>1.56</u>	<u>1.37</u>
Diluted	<u>0.92</u>	<u>(0.02)</u>	<u>*(7.18)</u>	<u>*(7.57)</u>	<u>1.51</u>	<u>1.32</u>

\* Restated, see note 1q.

- 5) Subsequent to December 31, 1999, the Company increased the number of options of the 1995 United States Plans by 3,750,000 options, to 8,460,000 options.

Subsequent to December 31, 1999, the Company granted approximately 3.3 million options to its employees.

**c. Dividends:**

- 1) In the event of distribution of cash dividends, the Company would be subject to a 15%, 20% or 25% tax on virtually all the dividends distributed; the Company is otherwise exempt from tax due to its "approved enterprise" status, as explained in note 12a(1). Effectively, the abovementioned dividend distribution would be reduced by the amount of the tax. See note 12a(1) and d(4).

PAGE 112 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 131

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 10 - SHAREHOLDERS' EQUITY (continued):**

- 2) In the event that cash dividends are declared by the Company, such dividends will be declared and paid in Israeli currency. Under current Israeli regulations, any cash dividend in Israeli currency paid in respect of ordinary shares purchased by non-residents of Israel with non-Israeli currency may be freely repatriated in such non-Israeli currency, at the rate of exchange prevailing at the time of repatriation.
- 3) Pursuant to the terms of a credit line from a bank (see note 14e), the Company is restricted from paying cash dividends to its shareholders.

**NOTE 11 - RESTRUCTURING CHARGES**

At the end of 1998 and during 1999, as a result of the acquisition of Spacenet, the Group recorded restructuring charges of \$ 24,184,000 (the amount is after the effect of restatement, see also note 1q) and \$ 5,174,000, respectively. The restructuring consisted of a series of actions taken in order to move forward with one platform for the interactive VSAT market as well as to capitalize on current product demand for other VSAT products. The restructuring charges and the related write-off associated with the restructuring charges consists of:

Closing of certain product lines - write-off of inventory of equipment relating to product lines to be discontinued.

Compensation to certain customers and suppliers - consists mainly of costs relating to discontinued commitments.

Write-off of investments - consists of write off of two investments, mainly in distribution channels for the Company's multimedia products in the United States, as this activity will be performed in the future by Spacenet.

The components and the classification of the restructuring charges and the related write-offs associated with the restructuring charges are as follows:

	<u>Year ended December 31</u>	
	<u>1999</u>	<u>1998</u>
	<u>U.S. \$ in thousands</u>	
Cost of sales - write-off of inventories	<u>4,634</u>	<u>9,495</u>
Restructuring charges:		
Compensation	(356)	11,091
Other		898
	<u>(356)</u>	<u>11,989</u>
Write-off of investments	<u>896</u>	<u>2,700</u>
	<u><u>5,174</u></u>	<u><u>24,184</u></u>

Most of the restructuring charges were paid in 1999.

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 - TAXES ON INCOME:

a. The Company:

- 1) Tax benefits under the Law for the Encouragement of Capital Investments, 1959

The Company's production facilities have been granted "approved enterprise" status under the above law.

Since the Company is a "foreign investors' company" as defined by the above law it is entitled to a ten-year period of benefits, for enterprises approved after April 1993. The main tax benefits of that status are a tax exemption for two or four years and a reduced tax rate of 15%, 20% or 25% (based on the percentage of foreign shareholding in each tax year) on income from all of its approved enterprises, for the remainder of the benefit period. As of December 31, 1999, the Company has nine approved enterprises.

The periods of benefits of the approved enterprises will expire between 2000 - 2008.

In the event of distribution of cash dividend from income which was tax exempt as above, the Company would have to pay the 15%, 20% or 25% tax in respect of the amount distributed (see d(4) below and note 10c(1)).

The Company is entitled to claim accelerated depreciation in respect of equipment used by approved enterprises during the first five years of the operation of these assets.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the above law, regulations published thereunder and the certificates of approval for the specific investments in approved enterprises. In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, with the addition of linkage differences to the Israeli consumer price index (the "Israeli CPI") and interest.

- 2) Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985

Under this law, results for tax purposes are measured in real terms, in accordance with the changes in the Israeli CPI, or in the exchange rate of the dollar for a "foreign investor's company". The Company has elected to measure its results for tax purposes on the basis of the changes in the exchange rate of the dollar.

*As of 12/31/99  
there are  
9 approved enterprises*

**GILAT SATELLITE NETWORKS LTD.**  
 (An Israeli Corporation)  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 12 - TAXES ON INCOME (continued):**

3) **The Law for the Encouragement of Industry) Taxes(, 1969**

The Company is an "industrial company" as defined by this law and as such is entitled to certain tax benefits, mainly accelerated depreciation as prescribed by regulations published under the Inflationary Adjustments Law, and amortization of patents and certain other intangible property rights.

**b. Non-Israeli subsidiaries**

Non-Israeli subsidiaries are taxed based upon tax laws in their countries of residence.

**c. Carryforward tax losses and credits**

Carryforward tax losses and research and development tax credits relating to non-Israeli subsidiaries approximate \$ 7.4 million at December 31, 1999. The carryforward amounts expire between 2004-2019.

**d. Deferred income taxes:**

	December 31	
	1999	1998
	U.S. \$ in thousands	
1) Provided in respect of the following:		
Carryforward tax losses and research and Development credits	2,387	2,732
Excess of fair value over cost relating to net assets of Spacenet at acquisition date	4,870	4,870
Other	932	430
	8,189	8,032
L e s s - valuation allowance	7,842	7,420
	347	612
2) Deferred taxes are included in the balance sheets as follows:		
Current assets	785	532
Non-current assets	141	364
Other long-term liabilities	(579)	(284)
	347	612
3) Realization of these deferred tax assets is conditional upon earning, in the coming years, taxable income in an appropriate amount. The amount of the deferred tax assets, however, could be changed in the future if estimates of future taxable income are changed.		
4) As stated in a(1) above, most of the Company's income is tax exempt due to the approved enterprise status granted to the Company's production facilities. The Company has decided to permanently reinvest the amount of the said tax exempt income, and not to distribute such income as dividends. Accordingly, no deferred taxes have been provided in respect of the tax exempt income.		

**PAGE 15 OF 136 PAGES**  
**EXHIBIT INDEX ON PAGE 131**

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 12 - TAXES ON INCOME** (continued):

**e. Taxes on income included in the income statements:**

	Year ended December 31		
	1999	1998	1997
	U.S. \$ in thousands		
Current - mainly in respect of non-Israeli subsidiaries	2,727	286	133
Deferred, see d. above*	<u>(252)</u>	<u>      </u>	<u>(3)</u>
	<u>2,475</u>	<u>286</u>	<u>130</u>

\* In respect of non-Israeli subsidiaries.

**f. Income (loss) before taxes on income:**

	Year ended December 31		
	1999	1998	1997
	U.S. \$ in thousands		
The Company	38,048	(74,777)	18,233
Non-Israeli subsidiaries	<u>(15,426)</u>	<u>(3,617)</u>	<u>(1,159)</u>
	<u>22,622</u>	<u>(78,394)</u>	<u>17,074</u>

**g. Tax assessments**

Final tax assessments have been received by the Company through the 1994 tax year. The subsidiaries have not received final tax assessments since incorporation or acquisition.

PAGE 116 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 137

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 - MONETARY BALANCES IN NON-DOLLAR CURRENCIES:**

	December 31, 1999		
	<u>Israeli currency*</u>		Other
	<u>Linked**</u>	<u>Unlinked</u>	non-dollar
	<u>U.S. \$ in thousands</u>		
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents		6	9,630
Accounts receivable:			
Trade		2,620	11,546
Other	1,382	6,682	4,704
Non-current receivables			<u>5,757</u>
	<u>1,382</u>	<u>9,308</u>	<u>31,637</u>
<b>Liabilities:</b>			
Current liabilities:			
Short-term bank credit		5,276	
Accounts payable and accruals:			
Trade	60	11,078	1,551
Accrued expenses		797	4,466
Other	1,117	2,618	6,435
	<u>1,177</u>	<u>19,769</u>	<u>12,452</u>

\* The above does not include balances in Israeli currency linked to the dollar.

\*\* To the Israeli CPI.

**NOTE 14 - SUPPLEMENTARY BALANCE SHEET INFORMATION:**

	December 31	
	<u>1999</u>	<u>1998</u>
	<u>U.S. \$ in thousands</u>	
<b>a. Short-term investments:</b>		
Bank deposit*	20,868	
Current maturities of long-term bank deposits**	40,672	
	<u>61,540</u>	
*The deposit is denominated in dollars and bears annual interest of 5.4%		
**The current maturities of long-term bank deposits are denominated in dollars and bear annual interest of 5.75-6.69%		
<b>b. Accounts receivable:</b>		
1) Trade:		
Related parties	26,649	4,688
Other*	84,768	67,165
	<u>111,417</u>	<u>71,853</u>
* Net of allowance for doubtful accounts	<u>4,423</u>	<u>2,000</u>

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 14 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued):**

	<u>December 31</u>	
	<u>1999</u>	<u>1998</u>
	<u>U.S. \$ in thousands</u>	
2) Other:		
Government departments and agencies:		
Value added tax refundable	3,389	4,121
Customs refundable	1,666	834
In respect of research and development grants (see note 9a)	2,193	1,756
Sundry	<u>516</u>	<u>47</u>
	7,764	6,758
Employees	1,586	949
Amounts receivable from GE Americom	26,221	13,834
Receivables in respect of capital leases (see d. below)	16,000	
Advances to suppliers	486	592
Prepaid expenses	8,844	2,880
Accrued interest on long-term bank deposits	2,683	292
Deferred income taxes (see note 12d)	785	532
Sundry	<u>7,613</u>	<u>1,541</u>
	<u>71,982</u>	<u>27,378</u>

**c. Long-term bank deposits**

The deposits are denominated in dollars, bear annual interest of 5.71-5.79% and mature on March 12, 2001.

**d. Receivables in respect of capital and operating leases**

The Group's contracts with customers contain long-term commitments, for remaining periods ranging from one to five years, to provide network services, equipment, installation and maintenance.

The minimum future payments to be received by the Group under these contracts as of December 31, 1999 are as follows (including unearned interest income in the amount of \$ 6,646,000):

	<u>\$ in thousands</u>
Year ending December 31:	
2000	30,517
2001	28,075
2002	22,028
2003	5,112
2004 and thereafter	3,915

The net investment in capital lease as of December 31, 1999 is \$ 47.3 million.

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 14 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued):**

**e. Short-term bank credit:**

- 1) Classified by currency and interest rate as follows:

	Interest rate at December 31,	December 31	
		1999	1998
	%	U.S. \$ in thousands	
In dollars	6.85	1,710	10,486
In Israeli currency	11.3-12.1	5,276	12,672
		<u>6,986</u>	<u>23,158</u>

- 2) Short-term bank credit is secured by a first priority floating charge on all the Company's assets and by a fixed charge on goodwill (intangible assets), unpaid share capital (shareholders' commitment to inject funds in the Company) and insurance rights (rights to proceeds on insured assets in the event of damage).

- 3) Unutilized credit lines at December 31, 1999 were approximately \$ 23 million.

**f. Accounts payable and accruals:**

- 1) Accrued expenses:

	December 31	
	1999	1998
	U.S. \$ in thousands	
Provision in respect of restructuring costs	156	13,008
Provision in respect of direct costs relating to the acquisition of Spacenet (see note 2)	277	6,759
Other accruals	<u>27,400</u>	<u>19,875</u>
	<u>27,833</u>	<u>39,642</u>

- 2) Other:

Payroll and related expenses	4,895	4,590
Provision for vacation pay	2,816	1,761
Advances from customers	246	1,364
Deferred revenue	2,250	4,050
Current maturities of long-term liabilities in respect of lease agreements (see g. below)	4,050	
Taxes payable	5,058	1,170
Sundry	451	1,325
	<u>19,766</u>	<u>14,260</u>

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 14 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued):**

**g. Other long-term liabilities:**

	<u>December 31</u>	
	<u>1999</u>	<u>1998</u>
	<u>U.S. \$ in thousands</u>	
1) Composed as follows:		
Long-term liabilities in respect of lease agreements (see (2) below)	7,510	
Deferred income taxes (see note 12d)	<u>579</u>	<u>284</u>
	<u>8,089</u>	<u>284</u>
2) The Group purchased some computer equipment under capital leases. Minimum lease commitments of the Group under these leases as of December 31, 1999 are as follows:		

	<u>U.S. \$ in thousands</u>
Year ending December 31:	
2000	<u>4,050</u>
2001	<u>4,120</u>
2002	<u>3,390</u>
	<u>7,510</u>
	<u>11,560</u>

**h. Concentration of credit risks**

Most of the Group's cash and cash equivalents and short-term and long-term bank deposits at December 31, 1999 and 1998 were deposited with Israeli and U.S. banks. The Company is of the opinion that the credit risk in respect of these balances is remote.

Most of the Group's revenues in the United States, in Europe and in the Far East are derived from a large number of customers or from large customers. Consequently, the exposure to concentrations of credit risk relating to trade receivables is limited. The Company performs ongoing credit evaluation of its customers and generally does not require collateral from its customers in the United States and in Europe. In respect of certain sales to customers in emerging economies, the Company requires letters of credit. An appropriate allowance for doubtful accounts is included in the accounts.

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 14 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued):**

**i. Fair value of financial instruments**

The financial instruments of the Group consist mainly of non-derivative assets and liabilities (items included in working capital, long-term bank deposits, investment in other companies, non-current receivables, long-term liabilities in respect of lease agreements and convertible subordinated notes).

In view of their nature, the fair value of the financial instruments included in the working capital of the Group is identical or close to their carrying amount. The fair value of long-term bank deposits, non-current receivables and long-term liabilities in respect of lease agreements also approximates their carrying value, since they bear interest at rates close to prevailing market rates. The fair value and the carrying value of the convertible subordinated notes as of December 31, 1999 is \$ 213,187,500 and \$ 75,000,000, respectively; December 31, 1998 - \$ 108,750,000 and \$ 75,000,000 respectively.

**NOTE 15 - SELECTED INCOME STATEMENT DATA:**

**a. Segment information and revenues from principal customers**

The Company adopts FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which was issued in June 1997 by the FASB.

Disaggregated financial data are provided below:

**1) Revenues by geographic area**

Following is a summary of revenues by geographic area. Revenues are attributed to geographic area based on the location of the customers:

	Year ended December 31		
	1999	1998	1997
	U.S. \$ in thousands		
United States	<sup>(b)</sup> 190,609	<sup>(a)</sup> 80,439	<sup>(a)</sup> 51,378
South Africa	1,560	20,810	<sup>(b)</sup> 63
China	<sup>(b)</sup> 5,640	<sup>(b)</sup> 5,363	<sup>(b)</sup> 4,739
South and Latin America	<sup>(b)</sup> 43,940	<sup>(b)</sup> 10,773	11,497
Europe	54,643	10,418	9,288
Israel	<sup>(b)</sup> 8,466	<sup>(b)</sup> 4,209	<sup>(b)</sup> 3,414
Other	33,015	23,323	23,311
	<u>337,873</u>	<u>155,335</u>	<u>103,690</u>

**2) Revenues from single customers which exceed 10% of total revenues in the relevant year:  
Spacenet (see note 2)**

69,357      35,135

PAGE 121 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 131

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 15 - SELECTED INCOME STATEMENT DATA (continued):**

	Year ended December 31		
	1999	1998	1997
	U.S. \$ in thousands		
(a) Including sales made to customers in the United States, where shipments were made directly to final customers in Europe		<u>4,375</u>	<u>12,027</u>
(b) Including revenues from related parties	* <u>52,700</u>	<u>12,686</u>	<u>3,734</u>

\* Including \$15 million from GE Americom. GE Americom and certain of its affiliates were committed to purchase products from the Group through the end of 1999. In 1999, no purchase orders for such products were received. The amount recorded represents 40% of \$ 37.5 million - the minimum commitment of GE Americom under this agreement. This amount was collected subsequent to December 31, 1999.

3) The Group's long lived assets are located in the following countries:

	December 31		
	1999	1998	1997
	U.S. \$ in thousands		
Israel	85,615	57,396	47,653
United States	61,304	25,847	902
Europe	8,947	9,634	126
Other	3,947	2,034	85
	<u>159,813</u>	<u>94,911</u>	<u>48,766</u>

	Year ended December 31		
	1999	1998	1997
	U.S. \$ in thousands		
<b>b. Additional disclosure regarding revenues and cost of revenues:</b>			
Revenues:			
Sale of products	238,564	147,767	101,309
Services	<u>99,309</u>	<u>7,568</u>	<u>2,381</u>
	<u>337,873</u>	<u>155,335</u>	<u>103,690</u>
Cost of revenues:			
Sale of products	146,084	82,198	58,603
Services	<u>74,055</u>	<u>4,405</u>	<u>139</u>
	<u>220,139</u>	<u>86,603</u>	<u>58,742</u>
<b>c. Research and development grants:</b>			
Royalty bearing grants (see note 9a)	1,340	997	464
Other grants	<u>1,028</u>	<u>2,038</u>	<u>2,030</u>
	<u>2,368</u>	<u>3,035</u>	<u>2,494</u>



GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - SELECTED INCOME STATEMENT DATA (continued):

In computing diluted per share data convertible notes have not been taken into account because their effect on diluted per share data is anti-dilutive.

Since in 1998 the Company had a loss per share, the effect of including the incremental shares from assumed exercise of options and conversion of convertible notes in the per-share computation is anti-dilutive, and, accordingly, the basic and diluted loss per share for that year are the same amount.

Following are data relating to the weighted average number of shares for the purpose of per-share computations:

	Year ended December 31		
	1999	1998	1997
	In thousands		
Weighted average number of shares issued and outstanding - used in computation of basic earnings (losses) per share	20,447	11,059	10,895
Add - incremental shares from assumed exercise of options	<u>982</u>	<u>          </u>	<u>360</u>
Weighted average number of shares used in computation of diluted earning (loss) per share	<u>21,429</u>	<u>11,059</u>	<u>11,255</u>

2) Under Israeli GAAP

As applicable to the Company, the main difference between the Israeli GAAP method and the U.S. GAAP method of earnings per share computation is that shares to be issued upon exercise of employee stock options and shares to be issued upon conversion of the convertible subordinated notes, when such an exercised or conversion is probable taken into account in the computation of basic earnings per share under Israeli GAAP, whereas under U.S. GAAP, in computing basic earnings per share, only the weighted average number of Company shares actually outstanding in the reported period is taken into account, and shares to be issued upon exercise of options are included in the computation of diluted earnings per share.

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 15 - SELECTED INCOME STATEMENT DATA (continued):**

Following are data relating to the net income (loss) and to the number of shares (including adjustments to such data) used for the purpose of computing earnings per share under Israeli GAAP:

	Net income (loss)			Par value of shares		
	Year ended December 31			Year ended December 31		
	1999	1998	1997	1999	1998	1997
	U.S. \$ in thousands			In thousands		
Net income (loss) for the year, as reported in the income statements	19,611	(79,383)	16,944			
Issued and outstanding shares at beginning of year				16,162	10,990	10,822
Employee stock option exercised				104	69	73
Shares issued to the public during the year				4,181		
Shares issuable upon conversion of convertible notes - conversion of which is expected				1,786		
Shares issuable upon realization of employee stock options - exercise of which is expected				2,944	1,062	553
Real financial expenses after tax in respect of convertible notes	5,795					
Net after tax imputed income (loss), assuming receipt - with retroactive effect - of the exercise increment in respect of employee stock options	<u>(4,465)</u>	<u>2,194</u>	<u>269</u>			
Total - for the purpose of basic per share computation	20,941	(77,189)	17,213	25,177	12,121	11,448
Add:						
Realization of employee stock options - exercise of which is not expected						704
Net after tax imputed income, assuming receipt - with retroactive effect - of the exercise increment in respect of employee stock options			696			
Total - for the purpose of diluted per share computation	<u>20,941</u>	<u>(77,189)</u>	<u>17,909</u>	<u>25,177</u>	<u>12,121</u>	<u>12,152</u>

PAGE 125 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 131

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 16 - SUBSEQUENT EVENTS:**

**a. Issuance of convertible subordinate notes**

Under an Offering Memorandum issued in the end of February 2000, the Company issued \$ 350,000,000 convertible subordinated notes (the "Notes"), traded in the United States on the Private Offerings, Resales and Trading through Automated Linkages ("PORTAL") market and due March 15, 2005. The Notes bear interest at an annual rate of 4.25%, payable March 15 and September 15 of each year, commencing September 15, 2000. Unless previously redeemed, the Notes are convertible by the holders, at any time through maturity, beginning 90 days following issuance of the Notes, into ordinary shares of the Company at a conversion price of \$ 186.18 per share, subject to adjustment under certain circumstances. The Notes are redeemable at the option of the Company, in whole or in part, at any time on or after March 18, 2003, at the redemption price, plus interest accrued to the redemption date. The redemption price will range from 101.70% to 100.85% depending on the date of redemption.

**b. Certain transactions:**

- 1) On March 30, 2000, the Group, Microsoft Network LLC ("MSN"), EchoStar Communications Corporation ("Echostar") and ING Furman Selz Investment ("ING"), entered into an agreement pursuant to which MSN, Echostar and ING are to invest a total of \$ 125 million into Gilat-To - Home, Inc., ("Gilat-To-Home"), the Company's North American broadband satellite internet service provider. The Group, along with related party of the Company, is to hold approximately 50% of Gilat-To-Home on a fully diluted basis. There are additional agreements covering, inter alia, the supply of equipment and services to MSN by Gilat -To-Home.
- 2) On March 6, 2000, the Company entered into an agreement to invest \$ 10 million in KnowledgeBroadcasting.Com LLC ("KBC"), a media company formed to distribute content to business and homes using satellite and other technologies, in return for approximately 10 million units of KBC, equal to approximately 5.6% of the total number of KBC units and a one year warrant to purchase an additional 20 million units at the same purchase price. The Company also granted KBC (i) a 5 year warrant to purchase approximately 191,000 of the Company's ordinary shares at a purchase price of \$ 157.05 per share, and (ii) a five year option to acquire equipment and services payable by KBC during the first two years in up to 20 million units of KBC (if the Company does not exercise its warrant), and thereafter - in cash or such other form as may be agreed between the parties.
- 3) See also note 4a.

PAGE 126 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 13

**GILAT SATELLITE NETWORKS LTD.**

(An Israeli Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**NOTE 16 - SUBSEQUENT EVENTS (continued):**

**c. Legal claim**

On May 8, 2000, Hughes Electronics Corporation filed a complaint for patent infringement against the Company and Spacenet (the "defendant"), in the U.S. District Court for the District of Maryland. In the Patent Suit, Hughes claims that the defendant infringes four of its patents in the United States and requests that the court enjoin the defendants from infringing its patents and demands an accounting for damages.

At this early stage of the proceedings, the Company and its legal advisors are studying the details of the case and are unable to evaluate the chances of the claim or its effect on the Company.



TENNE/034285/1999/AUDIT/1003.Doc

PAGE 127 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 1



**BERMAN HOPKINS  
WRIGHT & LAHAM, CPAs, LLP**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS • PROFIT ADVISORS

James A. Wright, Jr.  
James S. Laham

Lewis H. Berman (retired)

John R. Hopkins  
Ross A. Whiley

Emily E. Arnold (retired)

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholder  
Gilat Florida Inc.  
West Melbourne, Florida

We have audited the accompanying balance sheets of Gilat Florida Inc. (a wholly-owned subsidiary of Gilat Satellite Networks Ltd.) as of December 31, 1999 and 1998, and the related statements of operations, changes in stockholder's deficit and cash flows for each of the three years in the period ended December 31, 1999, 1998 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gilat Florida Inc. as of December 31, 1999, and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, 1998 and 1997 in conformity with generally accepted accounting principles.

February 4, 2000  
Melbourne, Florida

*Berman Hopkins  
Wright & Laham, CPAs, LLP*

PAGE 126 OF 131 PAGES  
EXHIBIT INDEX ON PAGE 131



320 FORTENHERRY ROAD • MERRITT ISLAND, FL 32952-3110 • (321) 453-2020 • FAX # (321) 459-1026  
307 EAST NEW HAVEN AVENUE, SUITE 1 • MELBOURNE, FL 32901-4576 • (321) 727-2353 • FAX # (321) 575-3923

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

GILAT SATELLITE NETWORKS LTD.

By: Yoel Gat  
Yoel Gat  
Chairman and Chief Executive Officer

Date: June 30, 2000

PAGE 129 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 131

**GILAT SATELLITE NETWORKS LTD.**  
**EXHIBITS TO THE ANNUAL REPORT**  
**FOR THE FISCAL YEAR**  
**ENDED DECEMBER 31, 1999**  
**AS FILED ON FORM 20-F**

**PAGE 130 OF 136 PAGES**  
**EXHIBIT INDEX ON PAGE 137**

## **EXHIBIT INDEX**

### **Exhibits**

- 2.1 Consent of Kesselman & Kesselman
- 2.2 Consent of Berman, Hopkins,  
Wright & Laham, LLP.

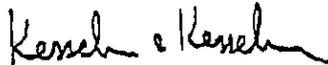
**EXHIBIT 2.1**

PAGE 132 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 131

Kesselman & Kesselman  
Certified Public Accountants (Isr.)  
Trade Tower, 25 Hamered Street  
Tel Aviv 68125 Israel  
P.O. Box 452 Tel Aviv 61003 Israel  
Telephone +972-3-7954555  
Facsimile +972-3-7954556

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-10092, 333-08026 and 333-96630) and Form F-3 (Registration Nos. 333-09824, 333-07446 and 333-07440) of our report dated February 27, 2000 (except for notes 8, 10b(5), 16b(1) and 16c for which the date is June 5, 2000), relating to the financial statements of Gilat Satellite Networks Ltd., included in this Annual Report on Form 20-F of Gilat Satellite Networks Ltd., for the year ended December 31, 1999. We also consent to the reference to our firm under the heading "Selected Consolidated Financial Data".



Kesselman & Kesselman  
Certified Public Accountants (Isr.)

Tel Aviv, Israel  
June 29, 2000

\\STENNE03421502000\LETTER\1014.doc

PAGE 133 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 131

**EXHIBIT 2.2**

**PAGE 134 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 131**



BERMAN HOPKINS  
WRIGHT & LAHAM, CPAs, LLP

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS • PROFIT ADVISORS

James A. Wright, Jr.  
James S. Laham

Lewis H. Berman (retired)

John R. Hopkins  
Ross A. Whitley

Emily E. Arnold (retired)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

Gilat Satellite Networks, Ltd.  
21 Yegia Kapayim St.  
Daniv Park, Kiryat Arye  
Petah Tikva 49130  
Israel

We hereby consent to the incorporation by reference of our report dated February 4, 2000 relating to the audit of the financial statements of Gilat Florida Inc. (a wholly-owned subsidiary of Gilat Satellite Networks, Ltd.) as of December 31, 1999 and 1998 and for the three years ended December 31, 1999, included in this Annual Report on Form 20-F, into the Registration Statements of Form S-8 (Registration Nos. 333-10092, 333-08026 and 33-96630) and on Form F-3 (Registration Nos. 333-09824, 333-07446 and 333-07440). We also consent to the reference to our firm under the caption "Selected Consolidated Financial Data".

June 30, 2000  
Melbourne, Florida

*Berman Hopkins  
Wright & Laham, CPAs, LLP*

PAGE 135 OF 136 PAGES  
EXHIBIT INDEX ON PAGE 131



\*\*\*\*\*  
USER ID: PRINT01  
DATE: 3/6/02 TIME: 5:14:47 AM  
\*\*\*\*\*

DOCUMENT SEPARATOR SHEET

\*\*\*\*\*  
Print Batch Document #: 1  
\*\*\*\*\*