PART II

ITEM 14: DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable.

PART III

ITEM 15: DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 16: CHANGES IN SECURITIES, CHANGES IN SECURITY FOR REGISTERED SECURITIES AND USE OF PROCEEDS

Not applicable.

PART IV

ITEM 17: FINANCIAL STATEMENTS

Not applicable.

ITEM 18: FINANCIAL STATEMENTS

The Consolidated Financial Statements and related notes thereto required by this item are contained on pages F-1 through F-43 hereof.

ITEM 19: FINANCIAL STATEMENTS AND EXHIBITS

(a) Index to Consolidated Financial Statements — PAGE

Report of Independent Auditors F-2
Consolidated Balance Sheets at December 31, 1998 and 1999 .... F-3
Consolidated Statements of Income for the Years Ended December 31, 1997, 1998 and 1999 .... F-5
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 1997, 1998 and 1999 .... F-6
Consolidated Statements of Cash Flows for the Years Ended December 31, 1997, 1998 and 1999 .... F-7
Notes to Consolidated Financial Statements F-10
Report of Independent Auditors with respect of Gilat Florida F-43

(b) Exhibits

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

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

1999 CONSOLIDATED FINANCIAL STATEMENTS

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

1999 CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

	Page
REPORT OF INDEPENDENT AUDITORS	F-2
CONSOLIDATED FINANCIAL STATEMENTS:	
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.

PAGE 86 OF 136 PAGES
EXHIBIT INDEX ON PAGE 137

PRICEWATERHOUSECOOPERS

Kesselman & Kesselman
Certified Public Accountants (Isr.)
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Tel Aviv 68125 Israel
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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%, 15.4% 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 1q, the Company has restated its financial statements for the year ended December 31,1998.

Kesselman & Kesselman

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

Kesselman & Kesselman
Certified Public Accountants (Isr.)

PAGE 87 OF 136 PAGES
EXHIBIT INDEX ON PAGE 131

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

CONSOLIDATED BALANCE SHEETS

	December 31	
	1999	1998
	U.S. $ in thousands	
A s s e t s (note 14e)		
CURRENT ASSETS (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
T o t a l current assets	359,380	191,389
INVESTMENTS AND NON-CURRENT RECEIVABLES:		
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
	108,534	59,602
PROPERTY, PLANT AND EQUIPMENT (note 5):		
Cost	198,555	118,357
L e s s - accumulated depreciation and amortization	38,742	23,446
	159,813	94,911
OTHER ASSETS AND DEFERRED CHARGES, net of accumulated amortization (note 6)	51,126	*55,382
T o t a l assets	678,853	401,284

/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.S. $ in thousands	
Liabilities and shareholders' equity		
CURRENT LIABILITIES (note 13):		
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	94,073	102,162
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)		
SHAREHOLDERS' EQUITY (note 10):		
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	(24,736)	*(44,347)
Total shareholders' equity	499,823	222,620
Total liabilities and shareholders' equity	678,853	401,284

* 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

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

* Restated, see note 1q.

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

PAGE 96 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			
BALANCE AT JANUARY 1, 1997	10,822	71,666		18,092	89,758
CHANGES DURING 1997:					
Net income				16,944	16,944
Employee stock options exercised (note 10b)	168	1,636			1,636
BALANCE AT DECEMBER 31, 1997	10,990	73,302		35,036	108,338
CHANGES DURING 1998:					
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
BALANCE AT DECEMBER 31, 1998	16,162	266,967		(44,347)	222,620
CHANGES DURING 1999:					
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
BALANCE AT DECEMBER 31, 1999	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.

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

* Restated, see note 1q.

PAGE 92 OF 136 PAGES
EXHIBIT INDEX ON PAGE 1

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	1999	1998	1997
	U.S. $ in thousands		
(a) Adjustments required to reconcile net income (loss) to net cash used in operating activities:			
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
	21,346	87,169	2,641
Changes in certain asset and liability items:			
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)
	(84,698)	(16,166)	(27,514)
	(63,352)	71,003	(24,873)
(b) Deconsolidation of subsidiary consolidated in previous years, see also note 4a:			
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)	
		(2,680)	

PAGE 93 OF 136 PAGES
EXHIBIT INDEX ON PAGE

GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 1998
	U.S. $ in thousands
(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)
Property and equipment	(35,113)
Other assets	(5,396)
Goodwill and identifiable intangible assets arising on acquisition	*(46,958)
Acquired research and development	(80,000)
Accrued expenses relating to the acquisition	6,759
Issuance of share capital in connection to the acquisition	190,973
	18

*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

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 from non-monetary balance sheet items such as depreciation and amortization, 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".

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.

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:

	%
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.

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 preformed.

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.

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).

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

The effect of the restatement is as follows:

1) Balance sheet as of December 31, 1998:

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

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

a) Under U.S. GAAP:

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

b) Under Israeli GAAP:

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

PAGE 60 OF 131 PAGES
EXHIBIT INDEX ON PAGE 131

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.

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.

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

* Restated, see note 1q.

NOTE 3 - INVENTORIES:

	December 31	
	1999	1998
	U.S. $ in thousands	
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*	16,950	897
	81,060	84,594

* Composed as follows:

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

PAGE 102 OF 136 PAGES
EXHIBIT INDEX ON PAGE 137