

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	<u>3,100</u>	<u>2,390</u>
Unfunded balance	<u>1,868</u>	<u>1,218</u>

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.

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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	5,223
	<u>21,632</u>

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

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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.

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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.

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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.

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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.

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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	1,150,950	9.16	56.21	271,631	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.

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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).

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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:

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

Most of the restructuring charges were paid in 1999.

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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 were
9 approved enterprises*

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 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.		

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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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 - MONETARY BALANCES IN NON-DOLLAR CURRENCIES:

	December 31, 1999		
	Israel currency*		Other
	Linked**	Unlinked	non-dollar
	U.S. \$ in thousands		
Assets:			
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			5,757
	<u>1,382</u>	<u>9,308</u>	<u>31,637</u>
Liabilities:			
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	
	1999	1998
	U.S. \$ in thousands	
a. Short-term investments:		
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. Accounts receivable:		
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>

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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.

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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	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	4,120
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	^(b) 190,609	^(a) 80,439	^(b) 51,378
South Africa	1,560	20,810	^(b) 63
China	^(b) 5,640	^(b) 5,363	^(b) 4,739
South and Latin America	^(b) 43,940	^(b) 10,773	11,497
Europe	54,643	10,418	9,288
Israel	^(b) 8,466	^(b) 4,209	^(b) 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)

	<u>69,357</u>	<u>35,135</u>
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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. Additional disclosure regarding revenues and cost of revenues:			
Revenues:			
Sale of products	238,564	147,767	101,309
Services	99,309	7,568	2,381
	<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	74,055	4,405	139
	<u>220,139</u>	<u>86,603</u>	<u>58,742</u>
c. Research and development grants:			
Royalty bearing grants (see note 9a)	1,340	997	464
Other grants	1,028	2,038	2,030
	<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):

	Year ended December 31		
	1999	1998	1997

U.S. \$ in thousands

d. Selling, general and administrative expenses:

1) Composed as follows:

Selling	32,988	20,154	14,590
General and administrative	*35,426	8,923	5,731
	<u>68,414</u>	<u>29,077</u>	<u>20,321</u>

2) The change in the allowance for doubtful accounts is composed as follows:

Balance at beginning of year	2,000	160	
Increase during the year	2,423	1,840	160
Balance at the end of year	<u>4,423</u>	<u>2,000</u>	<u>160</u>

* Including amortization of goodwill and identifiable intangible assets.

e. Financial income (expenses) - net:

Income:

Interest on cash equivalents and bank deposits	9,991	3,209	3,725
In respect of capital lease	565		
Other (mainly non-dollar transaction gains and losses - net)	189	2,159	590
	<u>10,745</u>	<u>5,368</u>	<u>4,315</u>

Expenses:

Interest on convertible subordinated notes (see note 8)	4,871	4,871	3,047
Amortization of issuance costs of convertible subordinated notes (see notes 6 and 8)	455	455	282
In respect of short-term bank credit	1,162	1,179	324
Other (mainly non-dollar transaction gains and losses - net)	990	110	124
	<u>7,478</u>	<u>6,615</u>	<u>3,777</u>
	<u>3,267</u>	<u>(1,247)</u>	<u>538</u>

f. Earnings (loss) per share:

1) Under U.S. GAAP

Basic earnings (loss) per share are computed based on the weighted average number of shares outstanding during each year. In computing the diluted earnings per share, account was taken of the dilutive effect of the outstanding stock options, using the treasury stock method.

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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	(4,465)	2,194	269			
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>

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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.

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GILAT SATELLITE NETWORKS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - SUBSEQUENT EVENTS (continued):

c. Legal claim

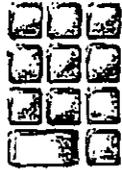
On May 8, 2000, Hughes Electronics Corporation filed a complaint for patent infringement against the Company and Spacenet (the "defendant"), in the U.S. District Court for the District of Maryland. In the Patent Suit, Hughes claims that the defendant infringes four of its patents in the United States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



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**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)

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 & La Ham, CPAs, LLP*

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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

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GILAT SATELLITE NETWORKS LTD.

EXHIBITS TO THE ANNUAL REPORT

FOR THE FISCAL YEAR

ENDED DECEMBER 31, 1999

AS FILED ON FORM 20-F

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EXHIBIT INDEX

Exhibits

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

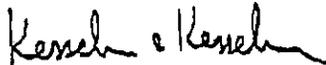
EXHIBIT 2.1

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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.)

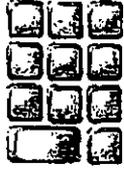
Tel Aviv, Israel
June 29, 2000

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

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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*

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