



Gilat Satellite Networks

Press Release

Gilat Satellite Networks Ltd.

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Gilat Announces Third Quarter 2004 Results

Petah Tikva, Israel, November 3, 2004 – Gilat Satellite Networks Ltd. (Nasdaq: GILTF), a worldwide leader in satellite networking technology, today reported its results for the quarter ended September 30, 2004.

Revenues for the third quarter of 2004 were US\$64.8 million and net loss was US\$(0.2) million or US\$(0.01) diluted per share. By comparison, revenues for the third quarter of 2003 were US\$44.6 million, and net loss was US\$(4.2) million or US\$(0.32) diluted per share. The 2004 third-quarter net loss includes impairment of long-lived assets in the amount of US\$ 2.2 million. The 2003 third-quarter net loss includes a gain from restructuring of debt in the amount of US\$4.5 million and other income in the amount of US\$0.8 million offset by restructuring charges in the amount of US\$1.7 million. Included in the third quarter of 2004 results are US\$7.6 million in depreciation and amortization expenses as compared to US\$5.8 million for the same period last year.

Revenues for the nine-month period ended September 30, 2004 were US\$179.7 million and net loss was US\$(8.5) million or US\$(0.38) diluted per share. By comparison, revenues for the nine-month period ended September 30, 2003 were US\$147.8 million, and net income was US\$109.8 million or US\$10.91 diluted per share. The net loss for the nine-month period ended September 30, 2004 includes charges relating to inventory write offs in the amount of US\$2.0 million and impairment of long-lived assets in the amount of US\$ 2.2 million. The net income for the nine-month period ended September 30, 2003 included a gain from restructuring of debt in the amount of US\$185.6 million and other income in the amount of US\$0.8 million offset by charges relating to inventory write offs in the amount of US\$3.2 million, restructuring charges in the amount of US\$3.9 million and impairment of long-lived assets in the amount of US\$23.9 million. Included in the results of the nine-month period ended September 30, 2004 are US\$23.5 million in depreciation and amortization expenses as compared to US\$19.9 million for the same period last year.

In accordance with the FASB Interpretation No.46, Consolidation of Variable Interest Entities, (“FIN 46”), Gilat has consolidated the financial results of StarBand Communications beginning from the first quarter of 2004. As a result of the above, the Company recorded revenues of US\$7.1 million, and a net income of US\$0.4 million in the third quarter of 2004 and revenues of US\$21.5 million, and a net income of US\$0.4 million in the nine-month period ended September 30, 2004.

The Company reported total cash balances (including cash and cash equivalents, short-term bank deposits, short- and long-term restricted cash and restricted cash held by trustees less short-term bank credits) of US\$111.9 million as of September 30, 2004, an increase of US\$6.6 million from the cash balance of US\$105.3 million as of June 30, 2004.



Press Release (cont.)

“Demand for Gilat’s products and services is strong and we are pleased to report that our financial and operational performance is improving,” said Shlomo Rodav, Chairman of the Board and CEO of Gilat. “Our balance sheet is healthy with cash balances of approximately US\$112 million, revenues were strong and our margins rose in the quarter. For the third consecutive quarter we have generated positive earnings before interest, taxes, depreciation and amortization (EBITDA) and we continue to expect to be EBITDA positive for 2004 as a whole.”

Rodav added, “This past quarter, we announced our first SkyEdge deal with Australia’s second largest telecommunications company, SingTel Optus. In general, we have received a very good reception for the SkyEdge and our sales funnel includes a growing number of SkyEdge prospects, some of which we expect to be finalized in the near future.”

Continued deal funnel - Gilat announced new deals in Australia, the Ukraine, and the United States

- Gilat announced an agreement to supply the Ukrainian National Lottery (UNL) with a satellite-based VSAT network based on its Skystar Advantage VSAT platform to serve lottery kiosks across the country. The Ukrainian National Lottery operates a constantly growing network of more than 2,400 lottery kiosks across the country. Hundreds of these existing sites that have been connected by terrestrial communications are now being transferred to satellite technology.
- Gilat announced an agreement to supply Australia’s second largest telecommunications company, SingTel –Optus, with a SkyEdge hub and remote sites for the expansion of Optus’s already existing Gilat networks, which will be upgraded to SkyEdge as well.. The agreement with Optus was the first SkyEdge contract to be announced following a successful beta phase.
- Spacenet Inc. has expanded its Connexstar channel partner program with the addition of Enterprise Satellite Solutions, LLC (ESS), an Arizona-based provider of commercial-grade networking services. ESS, which specializes in complete solutions for multi-location retail businesses, inaugurated its new relationship with Spacenet by announcing a three-year contract to provide a Connexstar broadband satellite network to the Allsup's convenience store chain in New Mexico and West Texas.
- Spacenet also has been selected by Buffets, Inc. to provide a Connexstar broadband satellite network to 350 restaurants nationwide.

About Gilat Satellite Networks Ltd.



Press Release (cont.)

Gilat Satellite Networks Ltd., with its global subsidiaries Spacenet Inc., Gilat Latin America and rStar Corporation, is a leading provider of telecommunications solutions based on Very Small Aperture Terminal (VSAT) satellite network technology – with close to 500,000 VSATs shipped worldwide. Gilat, headquartered in Petah Tikva, Israel, markets the SkyEdge™ Product Family which includes the SkyEdge™ Pro, SkyEdge™ IP, SkyEdge™ Call, SkyEdge™ DVB-RCS and SkyEdge™ Gateway. In addition the Company markets Skystar Advantage®, DialAw@y IPTM, FaraWay™, Skystar 360E™ and SkyBlaster* 360 VSAT products in more than 80 countries around the world. Gilat provides satellite-based, end-to-end enterprise networking and rural telephony solutions to customers across six continents, and markets interactive broadband data services. Skystar Advantage, Skystar 360E, DialAw@y IP and FaraWay are trademarks or registered trademarks of Gilat Satellite Networks Ltd. or its subsidiaries. (*SkyBlaster is marketed in the United States by StarBand Communications Inc. under its own brand name.) Visit Gilat at www.gilat.com.

Certain statements made herein that are not historical are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. The words “estimate”, “project”, “intend”, “expect”, “believe” and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties. Many factors could cause the actual results, performance or achievements of Gilat to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, inability to maintain market acceptance to Gilat’s products, inability to timely develop and introduce new technologies, products and applications, rapid changes in the market for Gilat’s products, loss of market share and pressure on prices resulting from competition, introduction of competing products by other companies, inability to manage growth and expansion, loss of key OEM partners, inability to attract and retain qualified personnel, inability to protect the Company’s proprietary technology and risks associated with Gilat’s international operations and its location in Israel. For additional information regarding these and other risks and uncertainties associated with Gilat’s business, reference is made to Gilat’s reports filed from time to time with the Securities and Exchange Commission.

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Gilat Satellite Networks Ltd.
Condensed Consolidated Income (Loss) Statements
US dollars in thousands

| | Nine months ended | | Three months ended | |
|--|-------------------|-----------------|--------------------|-----------------|
| | September 30 | | September 30 | |
| | 2004 | 2003 | 2004 | 2003 |
| | Unaudited | Unaudited | Unaudited | Unaudited |
| Revenues | 179,697 | 147,796 | 64,749 | 44,591 |
| Cost of Revenues | 124,324 | 116,721 | 43,576 | 34,766 |
| Inventory write off | 2,000 | 3,185 | | |
| Gross profit | 53,373 | 27,890 | 21,173 | 9,825 |
| Research and development expenses: | | | | |
| Expenses incurred | 14,048 | 17,246 | 4,807 | 5,211 |
| Less - grants and participation | 4,445 | 3,968 | 1,969 | 1,958 |
| Research and development expenses, net | 9,603 | 13,278 | 2,838 | 3,253 |
| Selling, marketing general and administrative expenses | 51,793 | 54,490 | 17,458 | 17,476 |
| Provision for doubtful accounts | 222 | 1,785 | 17 | 126 |
| Restructuring charges | | 3,905 | | 1,741 |
| Impairment of tangible and intangible assets | 2,161 | 23,851 | 2,161 | |
| Gain from derecognition of Liability | (245) | | | |
| Operating loss | (10,161) | (69,419) | (1,301) | (12,771) |
| Financial income (expenses) - net | 2,838 | (1,742) | 1,767 | 1,878 |
| Other income (expenses) | (192) | 822 | (192) | 822 |
| Gain from restructuring of debt | | 185,609 | | 4,516 |
| Income (loss) before taxes on income | (7,515) | 115,270 | 274 | (5,555) |
| Taxes (benefits) on income | 2,696 | 7,926 | 906 | (26) |
| Income (loss) after taxes on income | (10,211) | 107,344 | (632) | (5,529) |
| Share in profits of affiliated companies | 937 | 3,148 | 450 | 816 |
| Minority Share in losses (profits) of a subsidiary | 164 | (650) | | 541 |
| Net income (loss) from continuing operations | (9,110) | 109,842 | (182) | (4,172) |
| Gain from cumulative effect of a change in an accounting principle | 611 | | | |
| Net income (loss) | (8,499) | 109,842 | (182) | (4,172) |
| | | | | |
| Earnings (loss) per share (in US dollars) | | | | |
| Basic | (0.38) | 11.21 | (0.01) | (0.32) |
| Fully Diluted | (0.38) | 10.91 | (0.01) | (0.32) |
| | | | | |
| Weighted average number of shares used in computation of earnings (loss) per share (in thousands) | | | | |
| Basic | 22,227 | 9,801 | 22,230 | 12,995 |
| Fully Diluted | 22,227 | 10,146 | 22,230 | 12,995 |

Gilat Satellite Networks Ltd.
Condensed Consolidated Balance Sheet
US dollars in thousands

| | <u>September 30,</u> <u>2004</u> | <u>December 31,</u> <u>2003</u> |
|---|-------------------------------------|------------------------------------|
| | <u>Unaudited</u> | <u>Unaudited</u> |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 60,667 | 51,781 |
| Short-term restricted cash | 13,618 | 6,504 |
| Restricted cash held by trustees | 9,311 | 26,656 |
| Trade receivables (net of allowance for doubtful accounts) | 39,481 | 37,177 |
| Inventories | 27,837 | 37,760 |
| Receivables in respect of capital leases, prepaid expenses and other accounts receivable | 31,327 | 30,761 |
| Total current assets | <u>182,241</u> | <u>190,639</u> |
| LONG-TERM INVESTMENTS AND RECEIVABLES: | | |
| Long-term restricted cash | 7,721 | 13,664 |
| Long-term restricted cash held by trustees | 23,501 | |
| Severance pay fund | 7,573 | 7,343 |
| Long-term trade receivables, receivables in respect of capital leases and other receivables, net | 30,839 | 39,112 |
| | <u>69,634</u> | <u>60,119</u> |
| PROPERTY AND EQUIPMENT, NET | <u>133,339</u> | <u>141,581</u> |
| INTANGIBLE ASSETS AND DEFERRED CHARGES, NET | <u>8,029</u> | <u>9,617</u> |
| TOTAL ASSETS | <u>393,243</u> | <u>401,956</u> |
| | <u>September 30,</u> <u>2004</u> | <u>December 31,</u> <u>2003</u> |
| | <u>Unaudited</u> | <u>Unaudited</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Short-term bank credit | 2,907 | 1,770 |
| Current maturities of long-term loans | 8,339 | 3,000 |
| Trade payables | 18,320 | 25,715 |
| Accrued expenses | 27,667 | 35,040 |
| Short-term advances from customer held by trustees | 13,050 | 11,124 |
| Other accounts payable | 42,841 | 39,500 |
| Total current liabilities | <u>113,124</u> | <u>116,149</u> |
| LONG-TERM LIABILITIES: | | |
| Accrued severance pay | 7,898 | 7,151 |
| Long-term advances from customer held by trustees | 43,827 | 28,395 |
| Long-term loans, net of current maturities | 108,730 | 116,526 |
| Accrued interest related to restructured debt | 17,573 | 20,540 |
| Other long-term liabilities | 16,812 | 15,762 |
| Excess of losses over investment in affiliates | 2,122 | 2,543 |
| Convertible subordinated notes | 15,866 | 15,543 |
| Total long-term liabilities | <u>212,828</u> | <u>206,460</u> |
| COMMITMENTS AND CONTINGENCIES | | |
| MINORITY INTEREST | | |
| | | <u>2,946</u> |
| SHAREHOLDERS' EQUITY: | | |
| Share capital - Ordinary shares of NIS 0.2 par value | 981 | 980 |
| Additional paid in capital | 717,657 | 718,225 |
| Accumulated other comprehensive loss | (3,863) | (3,818) |
| Accumulated deficit | (647,484) | (638,986) |
| Total shareholders' equity | <u>67,291</u> | <u>76,401</u> |
| Total liabilities and shareholders' equity | <u>393,243</u> | <u>401,956</u> |