



FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report on Foreign Issuer

Pursuant to Rule 13a – 16 or 15d – 16
of the Securities Exchange Act of 1934

For the Month of August, 2023

Gilat Satellite Networks Ltd.

(Translation of Registrant's Name into English)

Gilat House, Yegia Kapayim Street
Daniv Park, Kiryat Arye, Petah Tikva, 4913020 Israel
(Address of Principal Corporate Offices)

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

Form 20-F Form 40-F

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

Yes No

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

Attached hereto as Exhibits 99.1 and 99.2 are Registrant's Condensed Interim Unaudited Consolidated Financial Statements as of June 30, 2023 and for the Six Months ended June 30, 2023 and June 30, 2022 and Operating and Financial Review and Prospects.

The contents of this Report on Form 6-K, including Exhibits 99.1 and 99.2 annexed hereto, are incorporated by reference into the Registrant's Registration Statements on Form F-3 (Registration No. 333-266044) and on Form S-8 (Registration Nos. 333-180552, 333-187021, 333-204867, 333-210820, 333-217022, 333-221546, 333-223839, 333-231442, 333-236028, 333-253972, 333-255740 and 333-264974), and shall be a part thereof from the date on which this Form 6-K is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Gilat Satellite Networks Ltd.
(Registrant)

Dated August 8, 2023

By: /s/ Doron Kerbel
Doron Kerbel
General Counsel & Company Secretary

[99.1 Unaudited Condensed Interim Consolidated Financial Statements of Gilat Satellite Networks Ltd. and its subsidiaries as of June 30, 2023 and for the Six Months ended June 30, 2023 and June 30, 2022](#)
[99.2 Operating and Financial Review and Prospects.](#)

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2023

UNAUDITED

IN U.S. DOLLARS

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CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30, 2023	December 31, 2022
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 87,408	\$ 86,591
Restricted cash	374	541
Trade receivables, (net of allowance for credit losses of \$525 and \$422 as of June 30, 2023 and December 31, 2022, respectively)	41,577	50,644
Contract assets	17,557	24,971
Inventories	40,049	33,024
Other current assets	22,744	19,283
Total current assets	209,709	215,054
LONG-TERM ASSETS:		
Restricted cash	14	13
Long-term contract assets	9,980	11,149
Severance pay funds	5,551	5,947
Deferred taxes	16,445	18,265
Operating lease right-of-use assets	3,198	3,891
Other long-term assets	9,086	10,737
Total long-term assets	44,274	50,002
PROPERTY AND EQUIPMENT, NET	73,895	76,578
INTANGIBLE ASSETS, NET	209	309
GOODWILL	43,468	43,468
Total assets	\$ 371,555	\$ 385,411

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

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	June 30, 2023	December 31, 2022
	<u>Unaudited</u>	<u>Audited</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 14,662	\$ 20,668
Accrued expenses	43,091	50,356
Advances from customers and deferred revenues	33,240	30,531
Operating lease liabilities	1,870	1,941
Other current liabilities	14,353	22,291
Total current liabilities	107,216	125,787
LONG-TERM LIABILITIES:		
Accrued severance pay	6,381	6,580
Long-term advances from customers and deferred revenues	1,480	1,041
Operating lease liabilities	1,261	1,890
Other long-term liabilities	181	5,988
Total long-term liabilities	9,303	15,499
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Share capital -		
Ordinary shares of NIS 0.2 par value: Authorized: 90,000,000 shares as of June 30, 2023 and December 31, 2022; Issued and outstanding: 56,621,668 and 56,610,404 shares as of June 30, 2023 and December 31, 2022, respectively	2,711	2,711
Additional paid-in capital	933,200	932,086
Accumulated other comprehensive loss	(6,955)	(6,847)
Accumulated deficit	(673,920)	(683,825)
Total shareholders' equity	255,036	244,125
Total liabilities and shareholders' equity	\$ 371,555	\$ 385,411

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) (Unaudited)

U.S. dollars in thousands (except share and per share data)

	Six months ended June 30,	
	2023	2022
Revenues:		
Products	\$ 81,832	\$ 63,830
Services	44,719	43,033
<u>Total revenues</u>	<u>126,551</u>	<u>106,863</u>
Cost of revenues:		
Products	49,885	49,274
Services	26,445	21,432
<u>Total cost of revenues</u>	<u>76,330</u>	<u>70,706</u>
Gross profit	50,221	36,157
Operating expenses:		
Research and development expenses, net	19,003	16,386
Selling and marketing expenses	11,941	10,310
General and administrative expenses	9,155	*) 8,495
Impairment of held for sale asset	-	439
Other operating expenses (income), net	(2,340)	*) 60
<u>Total operating expenses</u>	<u>37,759</u>	<u>35,690</u>
Operating income	12,462	467
Financial expenses, net	735	1,663
Income (loss) before taxes on income	11,727	(1,196)
Taxes on income	1,822	832
Net income (loss)	<u>\$ 9,905</u>	<u>\$ (2,028)</u>
Earnings (losses) per share (basic and diluted)	<u>\$ 0.17</u>	<u>\$ (0.04)</u>
Weighted average number of shares used in computing earnings (losses) per share:		
Basic	56,615,714	56,574,296
Diluted	56,622,204	56,574,296

*) Reclassified

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

U.S. dollars in thousands

	Six months ended June 30,	
	2023	2022
Net income (loss)	\$ 9,905	\$ (2,028)
Other comprehensive loss:		
Foreign currency translation adjustments	264	135
Change in unrealized loss on hedging instruments, net	(1,596)	(2,397)
Less - reclassification adjustments for net loss realized on hedging instruments, net	1,224	642
Total other comprehensive loss	(108)	(1,620)
Comprehensive income (loss)	\$ 9,797	\$ (3,648)

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

U.S. dollars in thousands (except number of ordinary shares data)

	Number of Ordinary shares	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total shareholders' equity
Balance as of December 31, 2021	56,539,237	\$ 2,706	\$ 929,871	\$ (6,357)	\$ (677,897)	\$ 248,323
Stock-based compensation of options	-	-	1,061	-	-	1,061
Exercise of stock options	68,779	5	(5)	-	-	-
Comprehensive loss	-	-	-	(1,620)	(2,028)	(3,648)
Balance as of June 30, 2022	<u>56,608,016</u>	<u>\$ 2,711</u>	<u>\$ 930,927</u>	<u>\$ (7,977)</u>	<u>\$ (679,925)</u>	<u>\$ 245,736</u>

	Number of Ordinary shares	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total shareholders' equity
Balance as of December 31, 2022	56,610,404	\$ 2,711	\$ 932,086	\$ (6,847)	\$ (683,825)	\$ 244,125
Stock-based compensation of options	-	-	1,114	-	-	1,114
Exercise of stock options	11,264	*) -	*) -	-	-	-
Comprehensive income (loss)	-	-	-	(108)	9,905	9,797
Balance as of June 30, 2023	<u>56,621,668</u>	<u>\$ 2,711</u>	<u>\$ 933,200</u>	<u>\$ (6,955)</u>	<u>\$ (673,920)</u>	<u>\$ 255,036</u>

*) Represent an amount lower than \$1

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

U.S. dollars in thousands

	Six months ended June 30,	
	2023	2022
<u>Cash flows from operating activities:</u>		
Net income (loss)	\$ 9,905	\$ (2,028)
<u>Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:</u>		
Depreciation and amortization	6,222	5,683
Impairment of held for sale asset	-	439
Stock-based compensation of options	1,114	1,061
Accrued severance pay, net	196	114
Deferred taxes, net	1,820	1,664
Decrease (increase) in trade receivables, net	9,398	(11,883)
Decrease (increase) in contract assets	8,378	(2,608)
Decrease (increase) in other assets and other adjustments (including short-term, long-term and effect of exchange rate changes on cash and cash equivalents)	243	(7,763)
Increase in inventories, net	(7,895)	(4,075)
Increase (decrease) in trade payables	(4,240)	4,205
Decrease in accrued expenses	(5,039)	(1,690)
Increase in advances from customers and deferred revenues	3,124	7,010
Decrease in other liabilities	(15,009)	(810)
Net cash provided by (used in) operating activities	8,217	(10,681)
<u>Cash flows from investing activities:</u>		
Purchase of property and equipment	(6,556)	(4,515)
Repayment of short-term deposits	-	2,159
Net cash used in investing activities	(6,556)	(2,356)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,010)	32
Increase (decrease) in cash, cash equivalents and restricted cash	651	(13,005)
Cash, cash equivalents and restricted cash at the beginning of the period	87,145	84,463
Cash, cash equivalents and restricted cash at the end of the period (B)	\$ 87,796	\$ 71,458

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

U.S. dollars in thousands

	Six months ended June 30,	
	2023	2022
Supplementary disclosure of cash flows activities:		
(A) Cash paid during the period for:		
Interest	\$ 423	\$ -
Income taxes	\$ 12,463	\$ 781

(B) The following table provides a reconciliation of cash, cash equivalents and restricted cash to amounts reported within the condensed interim consolidated balance sheets:

	June 30,	
	2023	2022
Cash and cash equivalents	\$ 87,408	\$ 70,133
Restricted cash - Current	374	1,313
Restricted cash - Long-Term	14	12
Cash, cash equivalents and restricted cash	\$ 87,796	\$ 71,458

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 1: - GENERAL

a. Organization:

Gilat Satellite Networks Ltd. and its subsidiaries (the "Company") is a global provider of satellite-based broadband communications. The Company designs and manufactures ground-based satellite communications equipment, and provides comprehensive solutions and end-to-end services, powered by its technology. The Company's portfolio includes a cloud-based satellite network platform, Very Small Aperture Terminals ("VSATs"), amplifiers, high-speed modems, high-performance on-the-move antennas, and high efficiency, high power Solid State Power Amplifiers ("SSPAs"), Block Upconverters ("BUCs") and Transceivers. The Company's comprehensive solutions support multiple applications with a full portfolio of products to address key applications including broadband internet access, cellular backhaul over satellite, enterprise, social inclusion solutions, In-Flight Connectivity ("IFC"), maritime, trains, defense and public safety, all while meeting the most stringent service level requirements. The Company also provides connectivity services, internet access and telephony, to enterprise, government and residential customers utilizing both its own networks, and other networks that it installs, mainly based on Build Operate Transfer ("BOT") and Build Own Operate ("BOO") contracts. In these projects, the Company builds telecommunication infrastructure typically using fiber-optic and wireless technologies for the broadband connectivity. The Company also provides managed network services over VSAT networks owned by others.

The Company was incorporated in Israel in 1987 and launched its first generation VSAT in 1989.

As of June 30, 2023, the Company operates in three operating segments consisting of Satellite Networks, Integrated Solutions and Network Infrastructure and Services. For additional information, including major customers, geographic and segment information, see Note 10.

- b. The Company depends on major suppliers to supply certain components and services for the production of its products or providing services. If these suppliers fail to deliver or delay the delivery of the necessary components or services, the Company will be required to seek alternative sources of supply. A change in suppliers could result in product redesign, manufacturing delays or services delays which could cause a possible loss of sales and additional incremental costs and, consequently, could adversely affect the Company's results of operations and financial position.
- c. COVID-19 related government assistance - Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") the Company was eligible for a refundable Employee Retention Credit subject to certain criteria. As of June 30, 2023 and December 31, 2022, the Company had a \$952 receivable balance from the United States government related to the CARES Act, which is presented within "Other current assets" on the Company's condensed interim consolidated balance sheets. In addition, the Company received additional COVID-19 related credits in different territories in which it operates which were not material to the Company's condensed interim consolidated financial statements.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 1: - GENERAL (Cont.)

- d. The recent military conflict between Russia and the Ukraine and the rising tensions between the U.S. and other countries, on the one hand, and Russia, on the other hand, caused major economic sanctions and export controls restrictions on Russia and various Russian entities to be imposed by the U.S., European Union and the United Kingdom commencing February 2022, and additional sanctions and restrictions may be imposed in the future. These sanctions and restrictions may restrict the Company's business in Russia, which mainly includes exports to Russia, and may delay or prevent the Company from collecting funds and perform money transfers from Russia. While the Company's business in Russia is of limited in scope, these restrictions may cause a reduction of the Company's sales and financial results. In addition, The Company receives manufacturing services from a global manufacturer's facility in the Ukraine. While the manufacturer assured the Company that the operations of the plant have not been interrupted by the military situation in the Ukraine and has a recovery plan in place, there is no assurance that negative developments in the area in the future will not disrupt the Company's business and materially adversely affect it.
- e. On March 8, 2023, the Company signed a definitive agreement to acquire 100% of the shares of DataPath Inc., a U.S.-based expert systems integrator with a strong focus on the U.S. Department of Defense (DoD) and the U.S. government sectors. The closing of the transaction is subject to certain regulatory approvals, including the receipt of clearance of the Committee on Foreign Investment in the United States ("CFIUS"), and other customary closing conditions. The acquisition is expected to be closed by the end of 2023. See note 15.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES

- a. Unaudited condensed interim consolidated financial statements:

The accompanying unaudited condensed interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. In the opinion of management, the unaudited condensed interim consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair presentation of the Company's consolidated financial statements.

The balance sheets as of December 31, 2022 have been derived from the audited consolidated financial statements of the Company at that date but does not include all information and footnotes required by U.S. GAAP for complete financial statements.

The accompanying unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2022, included in the Company's Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission ("SEC") on March 13, 2023. The significant accounting policies applied in the Company's audited 2022 consolidated financial statements and notes thereto included in the Annual Report are applied consistently in these unaudited condensed interim consolidated financial statements. The Company's interim period results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Reclassifications:

Certain amounts in prior periods have been reclassified to conform to the current period presentation.

c. Use of estimates:

The preparation of the unaudited condensed interim consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the unaudited condensed interim consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Main areas that require significant estimates and assumptions by the Company's management include contract costs, revenues (including variable consideration, determination of contracts duration, establishing stand-alone selling price for performance obligations) and profits or losses, application of percentage-of-completion accounting, provisions for uncollectible receivables and customer claims, impairment of inventories, impairment and useful life of long-lived assets, goodwill impairment, valuation allowance in respect of deferred tax assets, uncertain tax positions, accruals for estimated liabilities, including litigation and insurance reserves, and stock-based compensation. Actual results could differ from those estimates.

d. Principles of consolidation:

The unaudited condensed interim consolidated financial statements include the accounts of Gilat Satellite Networks Ltd. and its subsidiaries in which the Company has a controlling voting interest. Inter-company balances and transactions have been eliminated upon consolidation.

e. Recently adopted accounting pronouncements:

In March 2020, the FASB issued Update ASU 2020-04 'Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting' which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the reference rate reform. The amendments apply only to contracts and transactions that reference LIBOR or another reference rate expected to be discontinued as part of the reform. This ASU applies only to contracts or transactions entered into or evaluated before December 31, 2022. The adoption did not have a material impact on Company's condensed interim consolidated financial statements during the six months ended June 30, 2023.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 3:- INVENTORIES

Inventories are comprised of the following:

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
	<u>Unaudited</u>	<u>Audited</u>
Raw materials, parts and supplies	\$ 7,726	\$ 6,086
Work in progress and assembled raw materials	10,930	10,294
Finished products	21,393	16,644
	<u>\$ 40,049</u>	<u>\$ 33,024</u>

Inventory net write-offs amounted to \$1,455 and \$1,413 during the six months ended June 30, 2023 and 2022, respectively.

NOTE 4:- PROPERTY AND EQUIPMENT, NET

Property and equipment, net is comprised of the following:

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
	<u>Unaudited</u>	<u>Audited</u>
Cost:		
Buildings and land	\$ 83,353	\$ 83,436
Computers, software and electronic equipment	60,706	59,047
Network equipment	37,357	35,749
Office furniture and equipment	3,965	3,911
Vehicles	259	266
Leasehold improvements	2,593	2,525
	188,233	184,934
Accumulated depreciation	<u>114,338</u>	<u>108,356</u>
Depreciated cost	<u>\$ 73,895</u>	<u>\$ 76,578</u>

Depreciation expenses amounted to \$6,122 and \$5,461 during the six months ended June 30, 2023 and 2022, respectively.

The Company leases part of its buildings as office space to others. The gross income generated from such leases amounted to approximately \$2,790 and \$2,788 for the six months ended June 30, 2023 and 2022, respectively. These amounts do not include the corresponding offsetting expenses related to this income.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 5:- DEFERRED REVENUES

Deferred revenues as of June 30, 2023 and December 31, 2022 were \$9,960 and \$8,162, respectively, and primarily relate to revenues that are recognized over time for service contracts. Approximately \$3,595 of the balance as of December 31, 2022 was recognized as revenues during the six months ended June 30, 2023.

The balance of deferred revenues approximates the aggregate amount of the billed and collected amount allocated to the unsatisfied performance obligations at the end of reporting period.

The aggregate estimated amount of the transaction price allocated to performance obligations from contracts with customers that have an original expected duration of more than one year and that are unsatisfied (or partially unsatisfied) as of June 30, 2023 is approximately \$347,000. Such unsatisfied performance obligations, other than for large scale governmental projects (expected to be recognized over periods of approximately 6-11 years), principally relate to contracts in which the Company committed to provide customer care services, extended warranty on equipment delivered to its customers or other services for an original period of more than one year.

The Company elected to use the exemption of not disclosing the prices allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period, that are part of contracts that have an original expected duration of one year or less.

NOTE 6:- COMMITMENTS AND CONTINGENCIES

a. Litigations:

1. In 2003, the Brazilian tax authority filed a claim against the Company's inactive subsidiary in Brazil, SPC International Ltda., for the payment of taxes allegedly due from the subsidiary. After numerous hearings and appeals at various appellate levels in Brazil, the Supreme Court ruled against the subsidiary in final non-appealable decisions published in June 2017. As of June 30, 2023, the total amount of this claim, including interest, penalties and legal fees is approximately \$7,738, of which approximately \$838 is the principal. The Brazilian tax authorities initiated foreclosure proceedings against the subsidiary and certain of its former managers. The foreclosure proceedings against the former managers were cancelled by the court in a final and non-appealable decision issued in July 2017. While foreclosure and other collection proceedings are pending against the subsidiary, based on Brazilian external counsel's opinion, the Company believes that the subsidiary has solid arguments to sustain its position that further collection proceedings and inclusion of any additional co-obligors in the tax foreclosure certificate are barred due to statute of limitation and that the foreclosure procedures cannot legally be redirected to other group entities and managers who were not initially cited in the foreclosure proceeding due to the passage of the statute of limitation. Accordingly, the Company believes that the chances that such redirection will lead to a loss recognition are remote.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 6:- COMMITMENTS AND CONTINGENCIES (Cont.)

2. In 2014, the Company's Peruvian subsidiary, Gilat To Home Peru S.A., ("GTH"), initiated arbitration proceedings in Lima against the Ministry of Transport and Communications of Peru, ("MTC"), and the Programa Nacional de Telecomunicaciones ("Pronatel"). The arbitration was related to the Pronatel projects awarded to the Company in 2000-2001. Under these projects, GTH provided fixed public telephony services in rural areas of Peru. GTH's main claim was related to damages caused by the promotion of mobile telephony in such areas by the Peruvian government in the years 2011-2015. In June 2018, the arbitration tribunal issued an arbitration award ordering MTC and Pronatel to pay GTH approximately \$14,000. The arbitration award in favor of GTH was confirmed by the Peruvian Superior Court, which ordered MTC and Pronatel in November 2020 to pay the arbitration-award amount. Following the Superior Court's decision, GTH has initiated collection procedures against MTC and Pronatel. In January 2023 the first payment of \$3,213 was paid to GTH and was recognized as income under "Other operating expenses (income), net" in the condensed interim consolidated statements of income (loss) for the six months ended June 30, 2023. See note 15.

In October 2019, GTH initiated additional arbitration proceedings against MTC and Pronatel based on similar grounds for the years 2015-2019. In June 2022, the arbitration tribunal issued an arbitration award ordering MTC and Pronatel to pay GTH approximately \$15,000. In September 2022 MTC filed an annulment action against the award that was rejected in March 2023. MTC filed a constitutional grievance action appeal (Amparo) against this decision in May 2023 and, in parallel, in October 2022 GTH initiated an enforcement process for collection of the awarded amount. The Company recognized an expense of \$251, due to legal success fees, under "Other operating expenses (income), net" in the condensed interim consolidated statements of income (loss) for the six months ended June 30, 2023. See note 15. Based on the advice of counsel, the Company believes that the chances of success of the proceedings seeking to annul the award are remote.

3. In 2018, Gilat Networks Peru S.A. ("GNP"), the Company's subsidiary in Peru, won a government bid for two additional regional projects in the Amazonas and Ica regions in Peru for Pronatel with a contractual value of approximately \$154,000. GMC Engineering Solutions and SATEL Comunicaciones y Datos, two of the three entities comprising the losing bidder consortium, applied to the superior court in Lima to cancel the bid and obtained a preliminary injunction against the award. Although the lawsuit did not name GNP as a defendant, GNP was served as an interested third party in the process and filed its objection and defenses. Even though the legal proceedings continue, currently, following Pronatel's request, GNP continues performing these projects. Based on the advice of counsel, the Company believes that the chances of success of the proceedings seeking to cancel the bid are remote.

In addition, the Company is in the midst of different stages of audits and disputes with various tax authorities in different parts of the world. Further, the Company is the defendant in various other lawsuits, including employment-related litigation claims and may be subject to other legal proceedings in the normal course of its business. While the Company intends to defend the aforementioned matters vigorously, it believes that a loss in excess of its accrued liability with respect to these claims is not probable.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 6:- COMMITMENTS AND CONTINGENCIES (Cont.)

b. Guarantees:

The Company guarantees its performance to certain customers, mainly through bank guarantees and corporate guarantees. Guarantees are often required for the Company's performance during the installation and operational periods. The guarantees typically expire when certain operational milestones are met.

As of June 30, 2023, the aggregate amount of bank guarantees outstanding in order to secure the Company's various obligations was approximately \$82,000, including an aggregate of approximately \$77,700 on behalf of its subsidiaries in Peru. In order to secure these guarantees the Company provided a floating charge on its assets as well as other pledges, including a fixed pledge, on certain assets and property. In addition, the Company has approximately \$400 of restricted cash to secure these guarantees.

All of the above guarantees are performance guarantees for the Company's own performance, in accordance with ASC 460, "Guarantees" ("ASC 460"), such guarantees are excluded from the scope of ASC 460. The Company has not recorded any liability for such amounts, since the Company expects that its performance will be acceptable. To date, no guarantees have ever been exercised against the Company.

c. Commitments:

During the six months ended June 30, 2023, the Company has not entered into any new commitments with material effect on the Company's condensed interim consolidated financial statements.

NOTE 7:- DERIVATIVE INSTRUMENTS

The Company has entered into several foreign currency hedging contracts to protect against changes in value of forecasted foreign currency cash flows resulting from salaries and related payments that are denominated in NIS. These contracts were designated as cash flow hedges, as defined by ASC 815, as amended, are considered highly effective as hedges of these expenses and generally mature within twelve months.

The Company recognized losses related to derivative instruments, within payroll expenses, included under Cost of revenues and Operating expenses in the condensed interim consolidated statements of income (loss) of \$1,224 and \$626 for the six months ended June 30, 2023 and 2022, respectively. The notional amounts of hedging contracts were \$28,239 and \$32,227 as of June 30, 2023 and December 31, 2022, respectively.

The fair value of derivative instruments in the condensed interim consolidated balance sheets, which are presented under Other current liabilities, amounted to \$1,007 and \$635 as of June 30, 2023 and December 31, 2022, respectively.

The estimated net amount of the existing loss that is reported in accumulated other comprehensive loss as of June 30, 2023 that is expected to be reclassified into the condensed interim consolidated statement of income (loss) within the next twelve months is \$1,007.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 8:- SHAREHOLDERS' EQUITY

a. Share capital:

Ordinary shares confer upon their holders voting rights, the right to receive cash dividends and the right to share in excess assets upon liquidation of the Company.

b. Stock option plans:

Description of plans:

In October 2008, the Company's Board of Directors adopted the 2008 Stock Incentive Plan (the "2008 Plan") with 1,000,000 shares or stock options available for grant and a sub-plan to enable qualified optionees certain tax benefits under the Israeli Income Tax Ordinance. Among the incentives that may be adopted are stock options, performance share awards, performance share unit awards, restricted shares, RSUs awards and other stock-based awards. During the years commencing in 2010 and through June 30, 2023, the Company's Board of Directors approved, in the aggregate, an increase of 10,015,431 shares to the number of shares available for grant under the 2008 Plan, bringing the total number of shares available for grant to 11,015,431. As of June 30, 2023, an aggregate of 312,819 shares were available for future grants under the 2008 Plan.

The options granted under the 2008 Plan during the six months ended June 30, 2023 have vesting restrictions, valuations and contractual lives in similar nature to those described in Note 11 of the Notes to Company's consolidated annual financial statements for the year ended December 31, 2022.

Options granted to employees and directors:

The fair value of the Company's stock options granted in the six months ended June 30, 2023 and 2022 was estimated using the following weighted average assumptions:

	<u>Six months ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
Risk free interest	3.57% - 4.08%	1.41% - 2.84%
Dividend yields	0%	0%
Volatility	52.77% - 53.71%	51.45% - 51.85%
Expected term (in years)	3.88 - 3.92	3.95 - 4.00

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 8:- SHAREHOLDERS' EQUITY (Cont.)

A summary of employees' and directors' option balances under the 2008 Plan as of June 30, 2023 and changes during the six months then ended are as follows:

	Number of options	Weighted- average exercise price	Weighted- average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2023	3,441,644	\$ 8.1	4.1	\$ 80
Granted	2,002,500	\$ 5.7		
Exercised	(44,768)	\$ 4.2		
Forfeited and cancelled	(406,250)	\$ 10.4		
Outstanding as of June 30, 2023	<u>4,993,126</u>	<u>\$ 7.0</u>	<u>4.5</u>	<u>\$ 1,004</u>
Exercisable as of June 30, 2023	<u>1,371,876</u>	<u>\$ 7.9</u>	<u>3.0</u>	<u>\$ 11</u>

The weighted-average grant-date fair value of options granted during the six months ended June 30, 2023 and 2022 were \$2.43 and \$3.18, respectively. The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on that date. These amounts changed based on the fair market value of the Company's stock. Total intrinsic value of options exercised for the six months ended June 30, 2023 was \$86.

c. Dividends:

- 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 paid in Israeli currency 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 exchange rate prevailing at the time of repatriation.
- The Company has not adopted a general policy regarding the distribution of dividends and makes no statements as to the distribution of dividends in the foreseeable future.
- Pursuant to the terms of a bank agreement, the Company is restricted from paying cash dividends to its shareholders without initial approval from the bank.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 9:- OTHER COMPERHENSIVE INCOME (LOSS)

The following table shows the changes of accumulated other comprehensive loss, for the six months ended June 30, 2023:

	Six months ended June 30, 2023		
	Foreign currency translation adjustments	Unrealized losses on cash flow hedges	Total
Beginning balance	\$ (6,212)	\$ (635)	\$ (6,847)
Other comprehensive loss before reclassifications	264	(1,596)	(1,332)
Amounts reclassified from accumulated other comprehensive income	-	1,224	1,224
Net current-period other comprehensive income (loss)	264	(372)	(108)
Ending balance	<u>\$ (5,948)</u>	<u>\$ (1,007)</u>	<u>\$ (6,955)</u>

NOTE 10:- CUSTOMERS, GEOGRAPHIC AND SEGMENT INFORMATION

- a. The Company applies ASC 280, "Segment Reporting" ("ASC 280"). Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker ("CODM"). The CODM is the Company's Chief Executive Officer. The Company's CODM does not regularly review asset information by segments and, therefore, the Company does not report asset information by segment.
- b. The Company operates in three operating segments, as follows:
 - *Satellite Networks* is focused on the developing and supplying networks that are used as the platform that enables the latest satellite constellations of high throughput satellites ("HTS"), very high throughput satellites ("VHTS") and Non-GEO-Stationary Orbit ("NGSO") opportunities worldwide. The segment provides advanced broadband satellite communication networks and associated professional services and comprehensive turnkey solutions and managed satellite network services solutions. Segment's customers are service providers, satellite operators, MNOs, Telcos, large enterprises, system integrators, defense, homeland security organizations and governments worldwide. Principal applications include IFC, cellular backhaul, maritime, social inclusion solutions, government, defense and enterprise networks and are driving meaningful partnerships with satellite operators to leverage the segment's technology and breadth of services to deploy and operate the ground-based satellite communication networks.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 10:- CUSTOMERS, GEOGRAPHIC AND SEGMENT INFORMATION (Cont.)

The segment's product portfolio includes a leading satellite network platform with high-speed VSATs, high performance on-the-move antennas, BUCs and transceivers.

- *Integrated Solutions* is focused on developing, manufacturing and supplying products and solutions for mission-critical defense and broadcast satellite communications systems, advanced on-the-move and on-the-pause satellite communications equipment, systems and solutions, including airborne, ground-mobile satellite systems and solutions. The integrated solutions product portfolio comprises of leading high-efficiency, high-power SSPAs, BUCs and transceivers with a field-proven, high-performance variety of frequency bands. The segment's customers are satellite operators, IFC service providers, defense and homeland security system integrators, and NGSO gateway integrators.
- *Network Infrastructure and Services* is focused on telecom operation and implementation of large-scale network projects in Peru. The segment provides terrestrial (fiber optic and wireless network) and satellite network construction and operation. The segment serves the Company's customers through technology integration, managed networks and services, connectivity services, internet access and telephony over the segment's networks. The segment implements projects using various technologies (including the Company's equipment), mainly based on BOT and BOO contracts.

c. Information on the reportable operating segments:

1. The measurement of operating income (loss) in the reportable operating segments is based on the same accounting principles applied in these condensed interim consolidated financial statements and includes certain corporate overhead allocations.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 10:- CUSTOMERS, GEOGRAPHIC AND SEGMENT INFORMATION (Cont.)

2. Financial information relating to reportable operating segments:

	Six months ended June 30, 2023			
	Satellite Networks	Integrated Solutions	Network Infrastructure and Services *)	Total
Revenues	\$ 74,273	\$ 25,619	\$ 26,659	\$ 126,551
Operating income (loss)	<u>11,206</u>	<u>(1,457)</u>	<u>2,713</u>	<u>12,462</u>
Financial expenses, net				735
Income before taxes on income				<u>11,727</u>
Taxes on income				1,822
Net income				<u>9,905</u>
Depreciation and amortization Expenses	<u>\$ 2,706</u>	<u>\$ 1,622</u>	<u>\$ 1,894</u>	<u>\$ 6,222</u>

	Six months ended June 30, 2022				
	Satellite Networks	Integrated Solutions	Network Infrastructure and Services *)	Unallocated	Total
Revenues	\$ 51,627	\$ 29,397	\$ 25,839	\$ -	\$ 106,863
Operating income (loss)	<u>(1,841)</u>	<u>265</u>	<u>2,482</u>	<u>(439)</u>	<u>467</u>
Financial expenses, net					1,663
Loss before taxes on income					<u>(1,196)</u>
Taxes on income					832
Net loss					<u>(2,028)</u>
Depreciation and amortization Expenses	<u>\$ 2,598</u>	<u>\$ 1,413</u>	<u>\$ 1,672</u>	<u>\$ -</u>	<u>\$ 5,683</u>

*) During the six months ended June 30, 2023 and June 30, 2022, the Company recognized revenues from construction performance obligations in the amount of \$5,558 and \$8,587, respectively, which are presented under Network Infrastructure and Services operating segment.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 10:- CUSTOMERS, GEOGRAPHIC AND SEGMENT INFORMATION (Cont.)

d. Geographic information:

Revenues attributed to geographic areas, based on the location of the end customers and in accordance with ASC 280, are as follows:

	Six months ended	
	June 30,	
	2023	2022*)
United States	\$ 55,582	\$ 40,942
Peru	26,766	25,839
Israel	1,793	1,390
Others	42,410	38,692
	<u>\$ 126,551</u>	<u>106,863</u>

*) Reclassified.

e. The table below represents the revenues from major customers and their operating segments:

	Six months ended	
	June 30,	
	2023	2022
Customer A - Satellite Networks	20%	*)
Customer B - Network Infrastructure and Services	15%	20%
Customer C - Satellite Networks	*)	12%
Customer D - Integrated Solutions	*)	13%

*) Less than 10%

Customers A and D are located in the United States of America, Customer B in Peru and Customer C is located in the European Union.

NOTE 11:- INCOME TAXES

The Company's six months tax provision and estimates of its annual effective tax rate, is subject to variation due to several factors, including variability in pre-tax income (or loss), the mix of jurisdictions to which such income relates, tax law developments, as well as non-deductible expenses, such as share-based compensation, and changes in its valuation allowance. Income tax expense was \$1,822 and \$832 for the six months ended June 30, 2023 and 2022, respectively. The income tax expense for the six months ended June 30, 2023 is primarily related to the Company's utilization of deferred tax assets in Israel.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 12:- RELATED PARTY BALANCES AND TRANSACTIONS

- a. The Company entered into a number of agreements with affiliates of the FIMI Opportunity Funds ("FIMI"), formerly the Company's largest shareholder.
- b. As of June 30, 2023 and December 31, 2022, FIMI held less than 5% of Company's share capital and has no representatives on the Company's board of directors. Accordingly, FIMI and its affiliates are not considered related parties of the Company as of June 30, 2023 and during the six months ended June 30, 2023.
- c. The transactions with the Company's related parties were approved by the Company's Audit Committee and Board of Directors in accordance with the requirements of the Israeli Companies Law.
- d. Transactions with the related parties:

	Six months ended June 30,	
	2023	2022
Cost of revenues of products	\$ *)	\$ 92

*) Affiliates of FIMI are not considered related parties to the Company during the six months ended June 30, 2023.

NOTE 13:- EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

1. Numerator:

	Six months ended June 30,	
	2023	2022
Numerator for basic and diluted earnings (losses) per share - Net income (loss) available to holders of ordinary shares	\$ 9,905	\$ (2,028)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 13:- EARNINGS PER SHARE (Cont.)

2. Denominator:

	Six months ended	
	June 30,	
	2023	2022
Denominator for basic diluted earnings (losses) per share -		
Weighted average number of shares	56,615,714	56,574,296
Add - stock options	6,490	-
Denominator for diluted earnings (losses) per share - adjusted	<u>56,622,204</u>	<u>56,574,296</u>

The total number of potential shares related to the outstanding options excluded from the calculations of diluted earnings (losses) per share, as they would have been anti-dilutive, were 3,821,128 and 3,339,769 for the six months ended June 30, 2023 and 2022, respectively.

NOTE 14:- SUPPLEMENTARY CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS INFORMATION

a. Other current assets:

	June 30, 2023	December 31,
	Unaudited	2022 Audited
Governmental authorities	\$ 4,343	\$ 3,604
Prepaid expenses	8,650	6,404
Deferred charges	4,800	4,090
Advance payments to suppliers	2,409	2,418
Other	2,542	2,767
	<u>\$ 22,744</u>	<u>\$ 19,283</u>

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 14:- SUPPLEMENTARY CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS INFORMATION (Cont.)

b. Other current liabilities:

	<u>June 30, 2023</u>	<u>December 31,</u>
	<u>Unaudited</u>	<u>2022</u>
		<u>Audited</u>
Payroll and related employee accruals	\$ 12,163	\$ 13,157
Governmental authorities *)	992	8,383
Other	1,198	751
	<u>\$ 14,353</u>	<u>\$ 22,291</u>

c. Other long-term liabilities:

	<u>June 30, 2023</u>	<u>December 31,</u>
	<u>Unaudited</u>	<u>2022</u>
		<u>Audited</u>
Governmental authorities *)	\$ -	\$ 5,829
Other	181	159
	<u>\$ 181</u>	<u>\$ 5,988</u>

*) During the six months ended June 30, 2023, the Company elected to advance payment dates related to taxes payable to the Israeli Tax Authority in relation to trapped profits and paid the liability in full.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

NOTE 15:- OTHER OPERATING EXPENSES (INCOME), NET

Other operating expenses (income), net is comprised of the following:

	Six months ended	
	June 30,	
	2023	2022
Mergers and acquisitions related expenses	\$ 622	\$ 60
Income from arbitrations in Peru, net	(2,962)	-
	<u>\$ (2,340)</u>	<u>\$ 60</u>

NOTE 16:- SUBSEQUENT EVENTS

On July 10, 2023, following various legal proceeding in different courts, the Regional Trial Court of Makati ("RTC") in the Philippines granted the Company a Motion for Issuance of Writ of Execution, concerning a \$1,200 claim the Company filed in 2002 against a Philippines insurance company ("PIC"), demanding the payment of a surety bond due for collection as a result of a client of PIC's failure to pay its debt to the Company. As of June 30, 2023, the Company's external counsels computed the gross award as approximately \$9,300.

On July 20, 2023, the PIC filed a motion for reconsideration. On July 25, 2023, the Company filed an opposition to the PIC's motion. The Company intends to object to the PIC's motion for reconsideration vigorously.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

The following discussion and analysis of our financial condition as of June 30, 2023 and results of operations for the six months ended June 30, 2023 and June 30, 2022 should be read together with our condensed interim consolidated financial statements and related notes included elsewhere in this filing and our audited consolidated financial statements included in our Annual Report on Form 20-F for the year ended December 31, 2022 filed with the U.S. Securities and Exchange Commission ("SEC") on March 13, 2023 (the "2022 Form 20-F"). The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this filing and in our Annual Report on Form 20-F and other filings with the U.S. Securities and Exchange Commission.

Introduction

We are a leading global provider of satellite-based broadband communications. We design and manufacture ground-based satellite communications equipment and provide comprehensive solutions and end-to-end services powered by our innovative technology. Our portfolio includes a cloud-based satellite network platform, Very Small Aperture Terminals ("VSATs"), amplifiers, high-speed modems, high performance on-the-move antennas, and high efficiency, high power Solid State Power Amplifiers ("SSPAs"), Block Upconverters ("BUCs") and Transceivers. Our comprehensive solutions support multiple applications with a full portfolio of products to address key applications including broadband internet access, cellular backhaul over satellite, enterprise, social inclusion solutions, In flight connectivity ("IFC"), maritime, trains, defense and public safety, all while meeting the most stringent service level requirements. We have a large installed base, and currently have hundreds of active networks.

We provide managed network and services through satellite and terrestrial networks in addition to developing and marketing ground-based satellite communications equipment. We have proven experience in delivering complex projects and services worldwide. We offer complete turnkey integrated solutions, including:

- Managed satellite network services solutions, including services over our own networks (which may include satellite capacity);
- Network planning and optimization;
- Remote network operation;
- Call center support;
- Hub and field operations; and
- Construction and installation of communication networks, typically on a Build, Operate and Transfer ("BOT"), or Build, Operate and Own ("BOO"), contract basis. In these projects, we build telecommunication infrastructure, typically using fiber-optic and wireless technologies for broadband connectivity. We also provide managed network services over VSAT networks owned by others.

We have 15 sales and support offices worldwide, three Network Operation Centers ("NOCs"), and six R&D centers. Our products are sold to communication service providers, satellite operators, mobile network operators ("MNOs"), and system integrators that use satellite communications to serve enterprise, social inclusion solutions, government and residential users, MNOs and system integrators that use our technology. Our solutions and services are also sold to defense and homeland security organizations. In addition, we provide services directly to end-users in various market segments, including in certain countries in Latin America.

As of June 30, 2023, we operate in three operating segments, as follows:

Satellite Networks is focused on the developing and supplying networks that are used as the platform that enables the latest satellite constellations of high throughput satellites (“HTS”), very high throughput satellites (“VHTS”) and Non-GEO-Stationary Orbit (“NGSO”) opportunities worldwide. We provide advanced broadband satellite communication networks and associated professional services and comprehensive turnkey solutions and managed satellite network services solutions. Our customers are service providers, satellite operators, MNOs, Telcos, large enterprises, system integrators, defense, homeland security organizations and governments worldwide. Principal applications include IFC, cellular backhaul, maritime, social inclusion solutions, government, defense and enterprise networks and are driving meaningful partnerships with satellite operators to leverage our technology and breadth of services to deploy and operate the ground-based satellite communication networks. Our product portfolio includes a leading satellite network platform with high-speed VSATs, high performance on-the-move antennas, BUCs and transceivers.

Integrated Solutions is focused on developing, manufacturing and supplying products and solutions for mission-critical defense and broadcast satellite communications systems, advanced on-the-move and on-the-pause satellite communications equipment, systems and solutions, including airborne, ground-mobile satellite systems and solutions. The integrated solutions product portfolio comprises of leading high-efficiency, high-power SSPAs, BUCs and transceivers with a field-proven, high-performance variety of frequency bands. Our customers are satellite operators, IFC service providers, defense and homeland security system integrators, and NGSO gateway integrators.

Network Infrastructure and Services is focused on telecom operation and implementation of large-scale network projects in Peru. We provide terrestrial (fiber optic and wireless network) and satellite network construction and operation. We serve our customers through technology integration, managed networks and services, connectivity services, internet access and telephony over our own networks. We implement projects using various technologies (including our equipment), mainly based on BOT and BOO contracts.

Acquisition of DataPath, Inc.

On March 8, 2023, we signed a definitive agreement to acquire 100% of the shares of DataPath, Inc., a U.S. based expert systems integrator with a strong focus on the U.S. Department of Defense (DoD) and the U.S. government sectors. The closing of the transaction is subject to certain regulatory approvals, including the receipt of clearance of the Committee on Foreign Investment in the United States (“CFIUS”), and other customary closing conditions. The acquisition is expected to be closed by the end of 2023. See note 15 to our condensed interim consolidated financial statements included elsewhere in this filing.

Conflict in Ukraine

The recent military conflict between Russia and the Ukraine and the rising tensions between the U.S. and other countries, on the one hand, and Russia, on the other hand, caused major economic sanctions and export controls restrictions on Russia and various Russian entities to be imposed by the U.S., European Union and the United Kingdom commencing February 2022 and additional sanctions and restrictions may be imposed in the future. These sanctions and restrictions may restrict our business in Russia, which mainly includes exports to Russia, and may delay or prevent us from collecting funds and perform money transfers from Russia. While our business in Russia is of limited in scope, these restrictions may cause a reduction of our sales and financial results. In addition, we receive manufacturing services from a global manufacturer’s facility in the Ukraine. While the manufacturer assured us that the operations of the plant have not been interrupted by the military situation in the Ukraine and has a recovery plan in place, there is no assurance that negative developments in the area in the future will not disrupt our business and materially adversely affect it.

Explanation of Key Income Statement Items

Revenues

We generate revenues mainly from the sale of products (including construction of networks), satellite-based communications networks services and from providing connectivity, internet access and telephony services. We sell our products and services to enterprise, government and residential customers under large-scale contracts that utilize both our own networks and also other networks that we install, mainly based on BOT and BOO contracts. These large-scale contracts sometimes involve the installation of thousands of VSATs or construction of massive fiber-optic and wireless networks. Sale of products includes mainly the sale of VSATs, hubs, SSPAs, low-profile antennas and on-the-move / on-the-pause terminals, and construction and installation of large-scale networks based on BOT and BOO contracts. Sale of services includes access to and communication via satellites ("space segment"), installation of equipment, telephone services, internet services, consulting, online network monitoring, network maintenance and repair services. We sell our products primarily through our direct sales force and indirectly through resellers or system integrators.

Costs and Operating Expenses

Cost of revenues, for both products and services, includes the cost of system design, equipment, including inventory write-off costs, satellite capacity, salaries and related costs, allocated overhead costs, depreciation and amortization, customer service, interconnection charges and third-party maintenance and installation.

Our research and development expenses, net of grants received, consist of salaries and related costs, raw materials, subcontractor expenses, related depreciation costs and overhead allocated to research and development activities.

Our selling and marketing expenses consist primarily of salaries and related costs, commissions earned by sales and marketing personnel, commissions to agents, trade show expenses, promotional expenses and overhead costs allocated to selling and marketing activities, as well as depreciation expenses and travel costs.

Our general and administrative expenses consist primarily of salaries and related costs, allocated overhead costs, office supplies and administrative costs, bad debts, fees and expenses of our directors, depreciation, and professional service fees, including legal, insurance and audit fees, net of rental income.

Our operating results are significantly affected by, among other things, the timing of contract awards and the performance of agreements. As a result, our revenues and income (loss) may fluctuate substantially from quarter to quarter, and we believe that comparisons over longer periods of time may be more meaningful. The nature of certain of our expenses is mainly fixed or partially fixed, and any fluctuation in revenues will generate a significant variation in gross profit and net income (loss).

Critical Accounting Policies and Estimates

The preparation of the unaudited condensed interim consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP) requires us to make estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the dates of the unaudited condensed interim consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Main areas that require significant estimates and assumptions by us include contract costs, revenues (including variable consideration, determination of contracts duration, establishing stand-alone selling price for performance obligations) and profits or losses, application of percentage-of-completion accounting, provisions for uncollectible receivables and customer claims, impairment of inventories, impairment and useful life of long-lived assets, goodwill impairment, valuation allowance in respect of deferred tax assets, uncertain tax positions, accruals for estimated liabilities, including litigation and insurance reserves, and stock-based compensation. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Please refer to our discussion of critical accounting policies in our Annual Report on Form 20-F for the year ended December 31, 2022 for a discussion about those policies that we believe are the most important to the understanding of our financial condition and results of operations as such policies affect our more significant judgments and estimates used in the preparation of the financial information included in this interim report. Results for the six months ended June 30, 2023 are not necessarily indicative of results that may be expected for the year ending December 31, 2023 or future periods.

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

Revenues. Revenues for the six months ended June 30, 2023 and 2022 for our three operating segments were as follows:

	Six Months Ended June 30,		Percentage change Unaudited	Six Months Ended June 30,	
	2023	2022		2023	2022
	U.S. dollars in thousands			Percentage of revenues	
	Unaudited		Unaudited	Unaudited	
Satellite Networks	74,273	51,627	43.9%	58.7%	48.3%
Integrated Solutions	25,619	29,397	(12.9)%	20.2%	27.5%
Network Infrastructure and Services	26,659	25,839	3.2%	21.1%	24.2%
Total	126,551	106,863	18.4%	100.0%	100.0%

Our total revenues for the six months ended June 30, 2023 and 2022 were \$126.6 million and \$106.9 million, respectively. The increase in 2023 is attributable to an increase of \$22.6 million in Satellite Networks revenues and \$0.8 million in Network Infrastructure and Services revenues, partially offset by a decrease of \$3.8 million in Integrated Solutions revenues.

The increase in our Satellite Networks segment's revenues in the six months ended June 30, 2023 compared to the six months ended June 30, 2022 is due to increased revenues mainly in the IFC and NGSO markets, as well as the global supply chain challenges during the six months ended June 30, 2022.

The decrease in our Integrated Solutions segment revenues in the six months ended June 30, 2023 compared to the six months ended June 30, 2022 is mainly due to the decreased volume of deliveries for the NGSO market, partially offset by an increase in revenues derived from defense market related customers.

The increase in Network Infrastructure and Services revenues is mainly attributable to a new project awarded to us not yet initiated in the six months ended June 30, 2022, as well as revenues from operations in the Ica region following completion of construction during 2023, partially offset by a decrease in construction revenues.

Gross profit. Gross profit and gross margin for the six months ended June 30, 2023 and 2022 for our three operating segments were as follows:

	Six Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
	U.S. dollars in thousands		Percentage of revenues	
	Unaudited		Unaudited	
Satellite Networks	38,739	21,735	52.2%	42.1%
Integrated Solutions	7,511	8,393	29.3%	28.6%
Network Infrastructure and Services	3,971	6,029	14.9%	23.3%
Total	50,221	36,157	39.7%	33.8%

Our gross profit is affected period-to-period by revenues volume, the mix of our products sold, the mix of revenues between products and services, the regions in which we operate, the size of our transactions and the timing of when such transactions are consummated. Moreover, from time to time we may have large-scale projects which can cause material fluctuations in our gross profit. We recognize revenue from our construction performance obligations related to PRONATEL, mainly with respect to several regions in Peru, and other projects using the percentage-of-completion method, and as such any changes to our estimated profits in these projects may cause material fluctuations in our gross profit and gross margin. As such, we are subject to significant period-to-period fluctuations in our gross profit.

Our gross profit margin increased to 39.7% in the six months ended June 30, 2023 from 33.8% in the comparable period of 2022 due to the improved gross profit margin in our Satellite Networks segment, partially offset by a decrease in the gross profit margin in the Network Infrastructure and Services segment.

The increase in the Satellite Networks segment gross profit margin is mainly attributable to a favorable revenue mix and higher revenue volume.

In the Network Infrastructure and Services segment, the gross profit margin decreased mainly due to higher construction costs, following cost increases and delays, as well as higher operation costs, partially offset with profits from a new project awarded to us not yet initiated in the six months ended June 30, 2022.

Operating expenses:

	Six Months Ended		Percentage change
	June 30,		
	2023	2022	
	U.S. dollars in thousands		
	Unaudited		Unaudited
Operating expenses:			
Research and development expenses, net	19,003	16,386	16.0%
Selling and marketing expenses	11,941	10,310	15.8%
General and administrative expenses	9,155	8,495	7.8%
Impairment of held for sale asset	-	439	(100)%
Other operating expenses (income), net	(2,340)	60	-
Total operating expenses	37,759	35,690	5.8%

*) Reclassified

Research and development expenses, net, are incurred by our Satellite Networks and Integrated Solutions operating segments. Research and development expenses, net, increased by approximately \$2.6 million in the six months ended June 30, 2023 compared to the six months ended June 30, 2022. The increase is mainly attributable to higher investments in R&D (mainly to employee benefits related expenses to support our current and future development roadmap and growth), mostly in the Satellite Networks operating segment.

Selling and marketing expenses increased by approximately \$1.6 million in the six months ended June 30, 2023 compared to the six months ended June 30, 2022. The increase is mainly attributable to employee benefits related expenses and agent commissions that are recognized based on the related revenues recognition pattern.

General and administrative expenses increased by approximately \$0.7 million in the six months ended June 30, 2023 compared to the six months ended June 30, 2022. The increase is mainly attributable to employee benefits related expenses.

Other operating expenses (income), net, was approximately (\$2.3) million in the six months ended June 30, 2023 and a \$0.1 million in the six months ended June 30, 2022. The other operating income, net, in the six months ended June 30, 2023 is mainly attributable to the first payment of approximately \$3.2 million following an arbitration award in Peru, partially offset by merger, acquisition, and related litigation expenses related to the acquisition of DataPath, Inc. For additional information, see notes 1(e), 6(a) and 15 to the condensed interim consolidated financial statements and related notes included elsewhere in this filing.

Financial expenses, net were approximately \$0.7 million in the six months ended June 30, 2023 and \$1.7 million in the six months ended June 30, 2022. The decrease is primarily due to exchange rate differences related to monetary assets and liabilities and higher interest income, partially offset by the devaluation of financial instruments.

Taxes on income. Taxes on income are dependent upon where our profits are generated, such as the location and taxation of our subsidiaries as well as changes in deferred tax assets and liabilities and changes in valuation allowances attributable to changes in our profit estimates in different regions. In the six months ended June 30, 2023, we had tax expenses of approximately \$1.8 million compared to tax expenses of approximately \$0.8 million in the six months ended June 30, 2022. The increase is primarily due to utilization of deferred tax assets in Israel.

Variability of Quarterly Operating Results

Our revenues and profitability may vary from quarter to quarter and in any given year, depending primarily on the sales mix of our family of products and the mix of the various components of the products, sale prices, and production costs, as well as on entering into new service contracts, the termination of existing service contracts, or different profitability levels between different service contracts. Sales of our products to a customer typically consist of numerous VSATs and related hub equipment, SSPAs, BUCs, and low-profile antennas, which carry varying sales prices and margins.

Annual and quarterly fluctuations in our results of operations may be caused by the timing and composition of orders by our customers and the timing of our ability to recognize revenues. Our future results may also be affected by a number of factors, including our ability to continue to develop, introduce and deliver new and enhanced products on a timely basis and expand into new product offerings at competitive prices, to integrate our recent acquisitions, to anticipate effectively customer demands and to manage future inventory levels in line with anticipated demand. Our results may also be affected by currency exchange rate fluctuations and economic conditions in the geographical areas in which we operate. In addition, our revenues may vary significantly from quarter to quarter as a result of, among other factors, the timing of new product announcements and releases by our competitors and us. We cannot be certain that revenues, gross profit and net income (or loss) in any particular quarter will not vary from the preceding or comparable quarters. Our expense levels are based, in part, on expectations as to future revenues. If revenues are below expectations, operating results are likely to be adversely affected. In addition, a substantial portion of our expenses are fixed (e.g., lease payments) and adjusting expenses in the event revenues drop unexpectedly often takes considerable time. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Due to all of the foregoing factors, it is possible that in some future quarters our revenues or operating results will be below the expectations of public market analysts or investors. In such event, the market price of our shares would likely be materially adversely affected.

Conditions in Israel

We are organized under the laws of the State of Israel, where we also maintain our headquarters and a material portion of our laboratory capacity and principal research and development facilities. See Item 3.D. “Key Information – Risk Factors – Risks Relating to Our Location in Israel”, included in our Annual Report on Form 20-F for the year ended December 31, 2022, for a description of governmental, economic, fiscal, monetary or political factors that have materially affected or could materially affect our operations.

Impact of Inflation and Currency Fluctuations

While most of our sales and service contracts are in U.S. dollars or are linked to the U.S. dollar and most of our expenses are in U.S. dollars and NIS, portions of our projects in Latin America as well as our operations in Australia, Asia and Europe are linked to their respective local currencies. The foreign exchange risks are often significant due to fluctuations in local currencies relative to the U.S. dollar.

The influence on the U.S. dollar cost of our operations in Israel relates primarily to the cost of salaries in Israel, which are paid in NIS and constitute a substantial portion of our expenses in NIS. In the six months ended June 30, 2023, the U.S. dollar appreciated in relation to the NIS at a rate of approximately 5.1%, from NIS 3.519 per \$1 on December 31, 2022 to NIS 3.70 per \$1 on June 30, 2023. We entered into hedging agreements, to cover certain of our NIS to U.S. dollar exchange rate exposures.

The rate of inflation in Israel for the six months ended June 30, 2023 and June 30, 2022, was 1.86% and 3.02%, respectively.

Our monetary balances that are not linked to the U.S. dollar impacted our financial expenses during the six months ended June 30, 2023 and June 30, 2022, resulting in an approximately \$0.4 million income and \$1.0 million loss, respectively. This is due to fluctuations in currency rates in certain regions in which we do business, mainly in Israel, Latin America, and Europe. There can be no assurance that our results of operations will not be materially adversely affected by other currency fluctuations in the future.

Liquidity and Capital Resources

Since our inception, our financing requirements have been met through cash from funds generated by private equity investments, public offerings, issuances of convertible subordinate notes, bank loans and credit facilities, operations, as well as funding from research and development grants. We have used available funds primarily for working capital, capital expenditures and strategic investments.

As of June 30, 2023 and as of December 31, 2022, we had cash and cash equivalents and restricted cash of \$87.8 million and \$87.1 million, respectively. We believe that our working capital is sufficient for our present requirements.

As of June 30, 2023 and December 31, 2022, we had no bank loans.

At times, as part of contracts with some of our customers, we issue guarantees to guarantee the performance of our work, primarily with government entities. Guarantees are often required for our performance during the installation and operational periods of long-term projects such as in Latin America, and for the performance of other projects (government and corporate) throughout the rest of the world. The guarantees typically expire when certain operational milestones are met. In addition, from time to time, we provide corporate guarantees to guarantee the performance of our subsidiaries.

In connection with the PRONATEL Regional Projects, we were required to post certain advance payment guarantees and performance guarantees with PRONATEL. These requirements were principally satisfied through surety bonds issued by Amtrust Europe Limited, or Amtrust, for the benefit of PRONATEL, through a Peruvian bank as well as through the issuance of bank guarantees by First International Bank of Israel ("FIBI"), and by The Hong Kong and Shanghai Banking Corporation ("HSBC") (also through a Peruvian bank). The surety bonds issued by Amtrust expired in December 2019 after completion of the relevant milestone in the PRONATEL Regional Projects.

Under the arrangements with FIBI and HSBC, we are required to observe certain conditions. As of June 30, 2023, we are in compliance with these conditions. The aggregate amount of the bank guarantees outstanding to secure our various performance obligations, issued on our behalf by HSBC, FIBI and Scotia Bank del Peru as of June 30, 2023, was approximately \$82 million, including an aggregate of approximately \$77.7 million on behalf of our subsidiaries in Peru. We have provided HSBC and FIBI with various pledges as collateral for guarantees issued by them. Our credit and guarantee agreements also contain various restrictions and limitations that may impact us. These restrictions and limitations relate to incurrence of indebtedness, contingent obligations, negative pledges, liens, mergers and acquisitions, change of control, asset sales, dividends and distributions, redemption or repurchase of equity interests and certain debt payments. The agreements also stipulate a floating charge on our assets to secure fulfillment of our obligations to FIBI and HSBC as well as other pledges, including a fixed pledge, on certain assets and property.

The following table summarizes our cash flows for the periods presented:

	Six months ended June 30,	
	2023	2022
	U.S. dollars in thousands	
	Unaudited	
Net cash provided by (used in) operating activities	8,217	(10,681)
Net cash used in investing activities	(6,556)	(2,356)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,010)	32
Net increase (decrease) in cash, cash equivalents and restricted cash	651	(13,005)
Cash, cash equivalents and restricted cash at beginning of the period	87,145	84,463
Cash, cash equivalents and restricted cash at end of the period...	<u>87,796</u>	<u>71,458</u>

Our cash, cash equivalents and restricted cash increased by approximately \$0.7 million during the six months ended June 30, 2023 as a result of the following:

Operating activities. Cash provided by our operating activities was approximately \$8.2 million in the six months ended June 30, 2023 compared to cash used in operating activities of approximately \$10.7 million in the six months ended June 30, 2022. The cash provided by our operating activities during the 2023 period was primarily attributable to improved results of operations and collections, as well as the first payment received following an arbitration award against MTC and PRONATEL in Peru, which was partially offset by advanced tax payments to the Israeli Tax Authority in relation to trapped profits. The cash used during the 2022 period was mainly related to changes in working capital.

Investing activities. Cash used in investing activities was approximately \$6.6 million in the six months ended June 30, 2023 compared to approximately \$2.4 million in the six months ended June 30, 2022. The cash used in our investing activities during the 2023 period was for the purchase of property and equipment. During the 2022 period, the purchase of property and equipment was partially offset by a repayment of a short-term deposit.