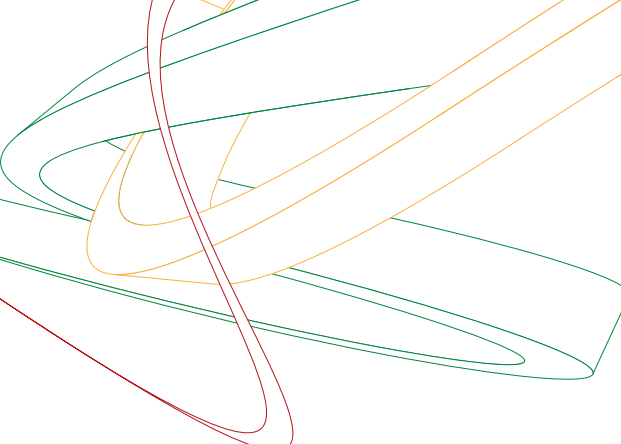


**2007** Letter to Shareholders



### To Our Valued Shareholders:

It is with much pride that we celebrated the 10th year anniversary of Radware in 2007. This anniversary marks a decade-long history of leading innovation in the marketplace. Innovation that is market-recognized through the business value we have delivered to our customers, the industry awards bestowed on our products, the attainment of top-tier alliances, and the positive acceptance of our achievements by the IT analyst community. All has combined to lead us to a record year of revenues, topping out at \$88.6 million – a further validation of our vision and progress. Last year we introduced our vision for the Business-Smart Network. That vision is now a reality as customers, partners, media, and analysts have embraced this forward-thinking and differentiated approach to application delivery and network security. In 2008, we will continue to release products and services aimed at furthering this industry-leading vision. By enabling our customers to make their networks “business-smart” we are helping them to achieve timeless business goals. Goals that focus on agility, efficiency, and productivity no matter what economic climate they face. And that’s smart business.

### Financial Highlights: Focused Investment

Our revenues for 2007 amounted to a record of \$88.6 million, a total increase of 9% compared to revenues of \$81.4 million for 2006. We maintained an industry-high gross profit of 79% in 2007, and continued our trend of quarter-over-quarter revenue increases from the second quarter throughout the remainder of the year, resulting in our highest quarterly revenues to-date with \$24.4 million in the fourth quarter. Revenues across our three primary geographies (Americas, EMEA, and APAC) had a healthy and balanced distribution. Revenues for the first half of 2008 amounted to \$46.2 million, an increase of 12% compared to revenues of \$41.2 million in the first half of 2007.

Net loss on a GAAP basis for 2007 was \$12.0 million or \$0.62 per diluted share, compared with net loss of \$1.3 million or \$0.07 per diluted share in 2006. Net loss on a Non-GAAP basis for 2007 was \$4.9 million or \$0.25 per diluted share, compared with net income of \$3.8 million or \$0.19 per diluted share in 2006. Net loss on a GAAP basis for the first half of 2008 was \$15.4 million or \$0.78 per diluted share, compared with net loss of \$7.6 million or \$0.39 per diluted share in the first half of 2007. Net loss on a Non-GAAP basis for the first half of 2008 was \$11.3 million or \$0.57 per diluted share, compared with net loss of \$3.6 million or \$0.19 per diluted share in the first half of 2007. Non-GAAP results exclude the effects of stock-based compensation expense, one-time inventory write-off and amortization of intangible assets and acquisition related expenses.

While several factors – some planned and some unplanned – resulted in the increased losses, we are committed to bringing the business back to profitability. We believe that results for the second half of 2008 will show substantial improvement vis-à-vis the first half of 2008. In 2007 and in the first half of 2008 we continued the trend of sequential, year-over-year sales increase since our inception. The cost of sales as a percentage of revenues increased slightly in 2007 compared to 2006, mainly due to a one-time inventory write-off in the beginning of 2007, and returned to its former level in the first half of 2008.

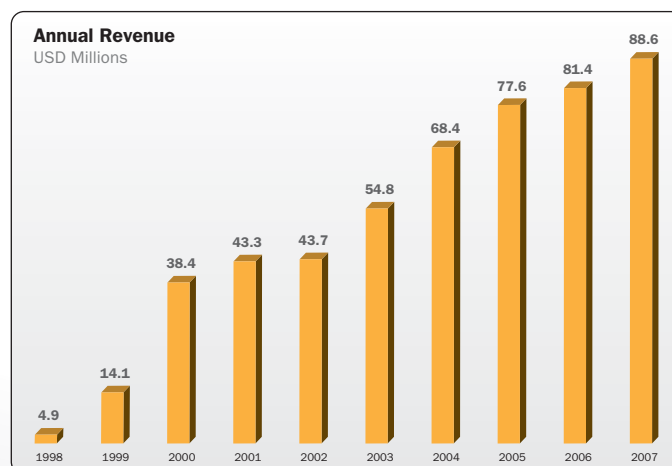
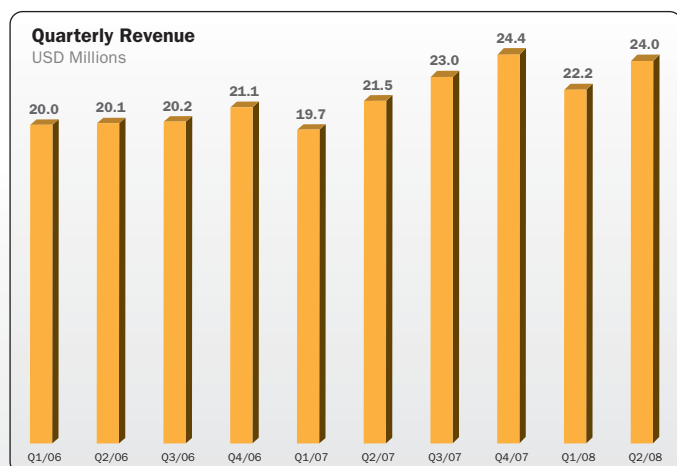
In order to continue to strengthen and broaden our product lines we have increased our investments in research and development during 2007 and the first half of 2008, mainly increasing the resources engaged in the development of our products. In order to increase market acceptance of our new products and to strengthen our branding and market penetration in certain regions, we increased our sales and marketing expenses throughout 2007 and the first half of 2008.

The devaluation of the US dollar against the Israeli Shekel, the Euro, the Australian dollar and Asian currencies which started at the end of 2007 and continued through the first half of 2008 caused our operating expenses to increase significantly in this period. The aforementioned devaluation resulted in an increase of \$2.8 million in our operating expenses during the first half of 2008.

Our sales increased at a lower rate than the increase of our operating expenses. As a result of the aforementioned, our operating results in 2007 reflected a loss of \$19.0 million, compared to an operating loss of \$8.3 million in 2006, and our operating results in the first half of 2008 reflected a loss of \$17.1 million, compared to an operating loss of \$10.9 million in the first half of 2007.

Financial income in 2007 remained the same as in 2006, at a level of \$7.4 million. Financial income in the first half of 2008 declined to a lower level due to the decline in the interest rates in the United States in the same period, and totaled to an amount of \$2.2 million. We ended the first half of 2008 with \$148.6 million invested in cash, bank deposits and marketable securities.

We feel it is important to continue to invest as we have done in the past in our R&D initiatives, sales and marketing efforts, and non-organic growth opportunities. In combination, these investments will help fuel our future growth, increase market acceptance of our offerings, and competitively position us for market leadership in the years ahead.



### **Market Highlights: Creating Opportunities for Growth**

According to leading industry analysts, in 2007 the market for application delivery reached almost \$1.5 billion, representing an increase of 23.1% over 2006, despite a year-ending contraction of 1% from the third to fourth quarter of the year.

On average, the network intrusion prevention segment of the security market also experienced a 16% growth over the previous year, bringing this segment to a near \$1 billion mark. Radware with its broad portfolio of products has a unique opportunity to capitalize on not only one, but two growing segments within overall IT spending.

Enterprise customers' IT organizations need to continuously deliver more advanced applications, globally to all their customers, employees and partner communities while guaranteeing continuous availability, optimized performance and security. With the new trends in application development architecture, and the need to save costs, IT agendas are driven by projects such as data center consolidation, SOA, virtualization, voice and data convergence, emerging security threats, and Green IT. Our portfolio of solutions is designed to meet these needs by providing our customers comprehensive application delivery and application security solutions in the most cost-effective and easily-deployable manner possible. Our solutions address current and next-generation data center needs in terms of: innovative functionality to meet emerging needs such as SIP-based technologies; "pay-as-you-grow" licensing models for wise investment practices; "on-demand" throughput and scalability capabilities for optimal capacity planning; real-time functionality to accommodate business flexibility and evolving security challenges; and much more.

We acknowledge that the landscape of network computing will be vastly different in the future ahead. And we have prepared so our customers will be prepared. Budgets are shrinking. Infrastructure boundaries are erasing. Environments are becoming more complex to manage and administer. Threats are entering disguised as legitimate activity. New protocols are being adopted. And application traffic above all else is increasing exponentially.

All in all this translates into making sure our customers have the abilities they need to contend with existing challenges and yet position themselves for business efficiency, innovation and growth – key tenets of the CIO agenda. We have positioned our portfolio in line with these needs and have taken it a step further than our competitors. Not only do we address the aforementioned needs, we align their application networking and security abilities with business needs. This is something we call "business-aware" and have incorporated into our products. This has been "here-to-for" absent in the industry as competitor products are only "technically-aware". And, it represents a market opportunity unique to Radware and wanted by both enterprise and carrier constituents.

### **Business Highlights: Leading the Charge**

Radware's focus in 2007 centered on delivering innovations in the areas of security, SOA, application performance monitoring, business-event traffic direction, convergence, and key alliances with top-tier application and networking vendors. By leading the charge, Radware achieved significant firsts in the industry as it served evolving customer needs. In 2008 we accelerated the pace of new product introductions announcing key innovations around SIP-based applications, on demand capacity and service scalability for our application delivery products and next-generation hardware platforms.

On the security front we introduced a new series of network intrusion protection system devices aimed at serving the needs of the SMB and enterprise markets that also continued our "pay-as-you-grow" licensing model. The updated product line with "zero-minute" behavioral capabilities allowed us to penetrate education, government, and e-commerce segments, resulting in the company's first multi-million dollar deals for its DefensePro product line. The adoption of DefensePro in our customers' environments allows them to have worry-free security peace of mind as they additionally benefit from lowered staff administrative needs ("zero-touch") while ensuring legitimate traffic flows ("zero-false-positive"). We augmented the product line with industry-first discoveries by our Security Operations Center (SOC) that disclosed vulnerabilities and provided critical patches for some of the most pernicious threats facing the industry.

Service-oriented architectures (SOA) represented another key area of investment for our customers. We responded with the introduction of AppXML, a gateway designed to address the acceleration and security challenges posed by XML, the base protocol of SOA. AppXML eliminates these concerns so our customers can focus on reaping the rewards of deploying SOA-based architectures. Additionally, our application delivery devices were validated by SAP's Enterprise Services Community Networking Lab (ENL), for use by its customers in their SOA efforts.

Radware also introduced the Application Performance Monitoring (APM) module in 2007. APM lets our customers monitor application performance in real-time, pinpoint bottlenecks and sources, and apply immediate resolution techniques. The adherence

to service-level agreements (SLAs) is of paramount importance to not only our enterprise but more so to our carrier customers. APM helps take the guesswork out of trouble-shooting potential causes of SLA failure while allowing them to take remedial steps at the same time. APM is also agent-less so it imposes a small management and network traffic footprint in our customers' environment.

During the year we also introduced the next version of our newly acquired technology, Inflight. The new version provides full visibility to end user transactions, and the ability in real-time to feed this information to a whole suite of third-party applications to drive real-time business analysis and improve business agility. With zero performance impact to application or users the enhanced version of Inflight allows customers to comply more easily with changing regulations and enhance transaction and business security.

Lastly, at the end of 2007 we prepared for the introduction of perhaps our most innovative solutions to-date. In January of 2008 we introduced SIP Director and our new line of hardware platforms, the OnDemand Switch. Both are a culmination of dedicated R&D investments made to address the upcoming needs of our customers. SIP is slated to be the next protocol of choice in the industry for all communication and messaging applications, much like HTTP did for is business and consumer data oriented applications.

During 2007 we also revealed our full offering for the carrier space which we commercialized in the last year. The full offering includes solutions for large-scale VoIP/SIP application delivery and security; unique solutions for application delivery of OSS/BSS applications; deep packet inspection (DPI) solutions; managed security; and Mobile Internet Gateway (MIG).

We also revitalized our hardware platforms to introduce the industry's first on demand throughput and scalability capabilities with unprecedented price-to-performance application delivery, resulting in significant CAPEX and OPEX savings for customers. This ground-breaking achievement is lauded by IT analysts and validated by independent test labs, namely the Tolly Group. With the OnDemand Switch our customers can scale their environments appropriately for the first time according to their needs and yet ensure they can deal with the most complex, demanding application environments. No matter what demands are placed on their application delivery platforms, the OnDemand Switch can ensure they meet SLAs, end-user responsiveness, and increasing traffic volume needs – and, they are encouraged to test this in our new solutions lab.

To complement these product innovations, we also secured key business alliances with leading technology providers such as BEA and Juniper as we also certified our solutions with notable organizations such as SAP (for SOA), UNH-IOL (VoIP consortium), NSS (security) and Riverbed (WAN acceleration). Each will allow us to more deeply penetrate our target markets as a "best-of-breed" provider as we bring well-rounded and required data center solutions to our customers. As well, we increased our customer-base twenty-percent, while securing multi-million dollar deals for our core products in key verticals such as online commerce and the government. We also landed several industry awards across our portfolio – further indicating the relevance and dominance of our solutions in the marketplace.

### **Summary: The Road Ahead**

In summary, we believe we have made the investments necessary to bring the company to the next level of needed growth and to ensure our competitiveness in the marketplace. By focusing on our core areas of competency and keeping an eye to the future we have positioned ourselves for continued business growth in the decade that lies ahead. Our investment in product development is resulting in a stronger and more unique market positioning. We are now focused on capitalizing on this position with an increased level of sales while controlling our expenses so we return to profitability. With our high growth margins, strong solution offering and already present sales and support infrastructure we believe we will deliver the needed results.

This focus infuses everything we do and will shape our future. It is a future that we intend to have characterized by the delivery of meaningful benefits to our customers, our partners, and our shareholders. We look forward to your participation in what we consider to be the "next wave" of success.

On behalf of the entire Radware organization and board of directors, we would like to thank you for your continued support and commitment to the company's achievement.



**Roy Zisapel**  
*President and Chief Executive Officer*



## Corporate Directory

### Corporate Headquarters

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Financial Public Relations  
1522 Mill Plain Road  
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Tel: 203-255-7902  
Fax: 203-255-7961

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### Independent Auditors

Kost Forer Gabbay & Kasierer  
A Member of Ernst & Young Global

### Executive Management

Roy Zisapel, *President and Chief Executive Officer*  
Meir Moshe, *Chief Financial Officer*  
Christopher R. McCleary, *Executive Chairman*  
(Retiring)

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### Ordinary Shares

Radware Ltd. Ordinary Shares (Common Stock) trade on the NASDAQ Stock Market (NASDAQ: RDWR) and Tel Aviv Stock Exchange.

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### Annual Report on Form 20-F

To review the company's Annual Report on Form 20-F, as filed with the U.S. Securities and Exchange Commission, please issue a request at [ir@radware.com](mailto:ir@radware.com). The report is also available for download from the investor relations section of the company web site or from the Securities and Exchange Commission's web site at [www.sec.gov](http://www.sec.gov).

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### About Radware

Radware (NASDAQ:RDWR), the global leader in integrated application delivery solutions, assures the full availability, maximum performance, and complete security of business-critical applications for more than 6,000 enterprises and carriers worldwide. With APSolute™, Radware's comprehensive and award-winning suite of application delivery and network security products, companies in every industry can drive business productivity, improve profitability, and reduce IT operating and infrastructure costs by making their networks "business smart". For more information, please visit [www.radware.com](http://www.radware.com).