

Letter to Shareholders



To Our Shareholders

I am pleased to announce that 2004 was another year of continued growth and achievement for Radware. We began the year with a complete product offering to ensure the fast, reliable, secure delivery of networked and web-enabled business critical applications. Over the year we increased our global presence with expanded offices around the world in the Americas, EMEA and APAC. Today, more than 3,000 enterprise and carrier customers across a broad range of vertical markets such as finance, education, manufacturing, retail, transportation, and communications use Radware intelligent application switches to drive business productivity and improve profitability. Our family of products adds critical application intelligence to our customers IP infrastructure, which enables them to maximize the value of their investments in IT and people by making networks more responsive to specific business processes.

Below are highlights of some of Radware's noteworthy achievements for 2004.

Financial Highlights

During 2004 and the first half of 2005 we continued to show strong results in all financial aspects.

Our revenues for 2004 amounted to a record of \$68.4 million, an increase of 25% compared to revenues of \$54.8 million for 2003.

Our revenues for the first half of 2005 amounted to \$37.5 million, an increase of 18% compared to revenues of \$31.8 million in the first half of 2004.

Our gross margin for the first half of 2005 continued to be at an industry record high of 81%, a slight decrease compared to 82% in 2004 and 2003.

During 2004 we had an operating profit of \$9.5 million, an increase of more than 250% compared to an operating profit of \$2.7 million in 2003.

Our operating profit for the first half of 2005 amounted to \$3.0 million.

Our net income for 2004 was \$13.8 million, or \$0.70 per diluted share, more than double, compared to net income of \$6.4 million, or \$0.34 per diluted share in 2003.

Our net income for the first half of 2005 totaled to \$5.4 million, or \$0.27 per diluted share.

During the first half of 2005 we continued to have a positive operating cash flow, as in 2004 and 2003.

During 2004 we've generated an amount of \$18.0 million in cash, short-term and long-term bank deposits and marketable securities, compared to an amount of \$13.7 million in 2003.

During the first half of 2005 we've generated an amount of \$9.4 million in cash, short-term and long-term bank deposits and marketable securities.

Anticipating Key Market Trends and Staying Ahead of Competition

Since 1997 Radware has been innovating products and technologies to enable the availability, performance and security of mission critical applications for businesses worldwide. This year, we saw growing recognition among industry analysts that the two strategic markets that Radware plays in, namely, application switching and application security, are converging. Last year, we anticipated this trend and expanded our product family to include intrusion prevention capabilities to protect businesses against the growing number of application-level security threats such as worms, viruses and denial of service attacks. This year, we strengthened our position as an industry leader by offering the most comprehensive solution for addressing the full range of availability, performance and security challenges associated with delivering applications over global networks.

Our comprehensive application delivery solution enables round the clock uptime for business critical applications, ensuring reliable and continuous access to corporate applications, and guaranteeing 24/7 website and online business availability. Our application acceleration and optimization capabilities provide the fastest user response times for distributed applications being accessed from any location over any type of connection. Our intrusion prevention and denial of service protection technology secures applications, users and all networked resources by stopping attacks before they get anywhere near our customers applications.

Both Gartner and IDC have recognized Radware as a key player in the converging application delivery market space. According to Gartner,

*"Management Update: Application Delivery and Web Application Firewalls are Ready to Converge."
June 2005, Gartner*

"The Web-enabled application delivery and Web application firewall markets will converge... Radware is furthest along in developing both areas of functionality."* This year we continued to reinforce our reputation as a technology innovator with two new patents. In April 2004, Radware was awarded a US patent detailing methods and systems for determining network proximity and the use of it as part of load balancing decisions. In April 2005, we were awarded another US patent for BGP route optimization used for optimizing application delivery over large carrier and enterprise networks. We are continuing to pursue technology innovations to keep Radware solutions aligned with key technology and market trends and ahead of our competition.

We believe the convergence of the application switch and application security markets validates our product roadmap and business strategy. The emergence of a new integrated application delivery market presents new growth opportunities for Radware. We have a unique application delivery architecture that was designed from the ground up to intelligently integrate availability, performance and security capabilities. We plan to drive continued revenue growth and profitability in the coming years by offering custom-fit application delivery solutions that fully leverage the power and flexibility of our trend-setting, innovative approach and address our customer's dynamic business and IT needs.

Roy Zisapel
President and CEO

Corporate Directory

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Independent Auditors

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

Ordinary Shares

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

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. The report is also available for download from the investor relations section of the company web site.

Investor Relations

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Executive Management

Roy Zisapel, President and Chief Executive Officer
Meir Moshe, Chief Financial Officer

About Radware

Radware (NASDAQ:RDWR) is the global leader in integrated application delivery solutions, assuring the full availability, maximum performance and complete security of all business critical networked applications while dramatically cutting operating and scaling costs. Over 3,000 enterprises and carriers worldwide use Radware application-smart switches to drive business productivity and improve profitability by adding critical application intelligence to their IP infrastructure, making networks more responsive to specific business processes.

Radware's APSolute product family provides the most complete set of application front-end, remote access and security capabilities for application-smart networking to ensure faster, more reliable and secure business transactions.