



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2020 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer: 979 582 242
Organisasjonsform: Aksjeselskap
Foretaksnavn: CERAGON NETWORKS AS
Forretningsadresse: Espehaugen 37
5258 BLOMSTERDALEN

Regnskapsår

Årsregnskapets periode: 01.01.2020 - 31.12.2020

Konsern

Mørselskap i konsern: Ja
Konsernregnskap lagt ved: Ja

Regnskapsregler

Regler for små foretak benyttet: Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: Regnskapslovens alminnelige regler
Benyttet ved utarbeidelsen av årsregnskapet til konsernet: -

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Thomas Ornevik
Dato for fastsettelse av årsregnskapet: 16.06.2021

Grunnlag for avgivelse

År 2020: Årsregnskapet er elektronisk innlevert
År 2019: Tall er hentet fra elektronisk innlevert årsregnskap fra 2020

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 20.07.2022



Resultatregnskap

Beløp i: NOK	Note	2020	2019
RESULTATREGNSKAP			
Inntekter			
Sales revenues	2	55 148 000	62 077 000
Sum inntekter		55 148 000	62 077 000
Kostnader			
Cost of goods sold		16 653 000	14 109 000
Payroll and related costs	3	20 648 000	20 613 000
Depreciation	4	327 000	265 000
Other operating expenses		16 080 000	25 736 000
Sum kostnader		53 708 000	60 723 000
Driftsresultat		1 440 000	1 354 000
Finansinntekter og finanskostnader			
Other financial income	9	1 134 000	445 000
Sum finansinntekter		1 134 000	445 000
Other financial expenses	9	7 814 000	2 703 000
Sum finanskostnader		7 814 000	2 703 000
Netto finans		-6 680 000	-2 258 000
Ordinært resultat før skattekostnad			
Income tax expense	8	7 000	7 000
Ordinært resultat etter skattekostnad		-5 247 000	-911 000
Årsresultat		-5 247 000	-911 000
Overføringer og disponeringer			
Transfer to accumulated other equity		5 247 000	911 000
Sum overføringer og disponeringer		5 247 000	911 000



Balanse

Beløp i: NOK	Note	2020	2019
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Sum immaterielle eiendeler		0	
Varige driftsmidler			
Machinery and plant etc	4	1 281 000	905 000
Sum varige driftsmidler		1 281 000	905 000
Finansielle anleggsmidler			
Investering i datterselskap	12	74 893 000	74 893 000
Lån til foretak i samme konsern		47 431 000	
Sum finansielle anleggsmidler		122 324 000	74 893 000
Sum anleggsmidler		123 605 000	75 798 000
Omløpsmidler			
Varer			
Inventories	16	3 289 000	2 056 000
Sum varer		3 289 000	2 056 000
Fordringer			
Accounts receivable	10	115 791 000	189 130 000
Other short-term receivables	11	5 598 000	3 769 000
Sum fordringer		121 389 000	192 899 000
Bankinnskudd, kontanter og lignende			
Cash and cash equivalents	7	8 755 000	10 857 000
Sum bankinnskudd, kontanter og lignende		8 755 000	10 857 000
Sum omløpsmidler		133 433 000	205 812 000
SUM EIENDELER		257 038 000	281 610 000

BALANSE - EGENKAPITAL OG GJELD



Balanse

Beløp i: NOK	Note	2020	2019
Egenkapital			
Innskutt egenkapital			
Share capital	1, 15	90 000 000	90 000 000
Overkurs	1	376 772 000	376 772 000
Sum innskutt egenkapital		466 772 000	466 772 000
Opptjent egenkapital			
Udekket tap	1	263 758 000	258 511 000
Sum opptjent egenkapital		-263 758 000	-258 511 000
Sum egenkapital		203 014 000	208 261 000
Gjeld			
Langsiktig gjeld			
Pensjonsforpliktelser	13	21 424 000	20 823 000
Sum avsetninger for forpliktelser		21 424 000	20 823 000
Annen langsiktig gjeld			
Sum langsiktig gjeld		21 424 000	20 823 000
Kortsiktig gjeld			
Leverandørgjeld		24 463 000	46 657 000
Other current liabilities	14	5 639 000	5 869 000
Advances from customer/processing contracts		2 498 000	
Sum kortsiktig gjeld		32 600 000	52 526 000
Sum gjeld		54 024 000	73 349 000
SUM EGENKAPITAL OG GJELD		257 038 000	281 610 000



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Annual Report 2020 Ceragon Networks AS

Introduction

Ceragon Networks AS previously trading as Nera Networks AS was formed in 2012 after the sale of Nera Networks AS on 19th January 2011 to Ceragon (UK) Limited, a 100% subsidiary of Ceragon Networks Ltd. (Israel).

The Company provides wireless hauling solutions that enable cellular operators and other wireless service providers to deliver voice and data services, enabling smart-phone applications such as internet browsing, music and video applications.

The company's wireless backhaul solutions uses microwave technology to transfer large amounts of telecommunication traffic between base stations and small-cells and the core of the service provider's network. The Company's solutions support all wireless access technologies, including LTE- Advanced, LTE, HSPA, EV-DO, CDMA, W-CDMA and GSM.

The Company's systems also serve evolving network architectures including all-IP long haul networks. The company's headquarters is based in Espehaugen, Bergen. The company is an international company with branches and affiliates in several countries in Europe, North America, Latin America and Africa.

Ceragon Networks AS is part of the Ceragon Networks Ltd Group and therefore consolidated in their financial statements. The Consolidated financial statements for the Ceragon Group can be obtained from Ceragon's webpage www.ceragon.com. The 2020 Ceragon Group accounts were issued on 8th March 2021.

Analysis of the Financial Statements

Total revenues of Ceragon Networks AS for the fiscal year 2020 amounted to 55M NOK compared to 62M NOK in 2019.

Cost of goods was 17M NOK compared to 14M NOK in 2019. Wage expenses were 21M NOK in 2020 same as 2019.

The company's depreciation was 0.3M NOK in 2020 same as 2019.

Total operating expenses for the fiscal year 2020 were 54M NOK compared to 61M NOK in 2019.

Ordinary operating profit before financial items in 2020 amounted to 1.4M NOK same as 2019.

Net financial and other expenses in 2020 amounted to 6.7M NOK compared to income of 2.3M NOK in 2019.

Taxes on income was 0 M NOK in 2020 same as 2019.

Net loss for 2020 was 5M NOK compared to net loss of 1M NOK in 2019.

Balance sheet and cash flow

As of December 31, 2020, Receivables amounted to 121M NOK.

Current assets amounted to 133M NOK.

Net cash flow from operating activities amounted to 46M NOK.

Net cash flow used in financing activities amounted to 47M NOK

Net change in cash and cash equivalents were 2M NOK in 2020. The equity ratio per December 31, 2019 was 79%.



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Risk Factors

As for the financial risks - the liquidity risk, credit risk and interest rate risk are the most prominent. Ceragon Networks Ltd is ensuring sufficient financing of current expenditures. The company has a material currency exposure in USD. This exposure in USD is not hedged as USD is the Ceragon Group's functional currency. The company's customers are primarily large public and private telecommunications companies. Credit risk is reduced by internal quality procedures in conjunction with project agreements, advance payment and payment milestones in the projects, back-to-back agreements to subcontractors, as well as tight credit monitoring. Furthermore, the company is to some extent secured by letters of credit. In addition, the group tries to insure its receivables against loss on group level. Yet there will always be an inherent risk of bad debts.

Risks Relating to the Novel Coronavirus (COVID-19) Pandemic ("Coronavirus")

The Coronavirus outbreak which began on December 2019, has dramatically expanded into a worldwide pandemic creating macro-economic uncertainty and disruption in the business and financial markets. Many countries around the world, including Norway, have been taking measures designated to limit the continued spread of the Coronavirus, including the closure of workplaces, restricting travel, prohibiting assembling, closing international borders and quarantining populated areas. Such measures present concerns that may dramatically affect our ability to conduct our business effectively, including, but not limited to adverse effect on employees' health, a slowdown and often a stoppage of commerce, delivery, work, travel and other activities which are essential and critical for maintaining on-going business activities. Given the uncertainty around the extent and timing of the future spread or mitigation of the Coronavirus and around the imposition or relaxation of protective measures, we cannot reasonably estimate the impact to our future results of operations, cash flows or financial condition. Infections may become more widespread and the limitation on our ability to work, travel, collect payments and timely sell, distribute and install our products, as well as any closures or supply disruptions, may be extended for longer periods of time and to other locations, all of which would have a negative impact on our business, financial condition and operating results. In addition, the unknown scale and duration of these developments have macro and micro negative effects on the financial markets and global economy which could result in an economic downturn that could affect demand for our products and have a material adverse effect on our operations and financial results, earnings, cash flow, and our financial condition. These effects could be material and long term in duration.

While the full impact of the Coronavirus outbreak is unknown at this time, we are closely monitoring the developments and continually assessing the potential impact on our business. Below are some of the risks and challenges that we may face as a result of a prolonged disruption of work due to the Coronavirus pandemic, which could have an adverse effect on our results of operations and financial condition:

- Economic downturn and slowdown of the macro-economic development and significant decline of business that can harm the strength of the worldwide telecommunications industry in general and the wireless fabrication and services industry in particular. Such downturn or slowdown could affect demand for our products and services and decrease our sales of products and related services to such industry;
- Material reduction in new orders and in procurement of our products, issuance of work stoppage orders or delay in the award of new orders on part of our customers;
- Significant decline of our business, that can harm our ability to conduct or to further develop our business, including, cancellation, suspension or reduction in new equipment purchase, postponement or cancellation of rollout of wireless networks, postponement in the transition to 5G



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technologies or new products and technologies, inability or imposition of restrictions limiting or preventing our ability to deliver and perform under our contracts or to bill and collect amounts due from our customers, or the materialization of other circumstances that may result from the above market conditions, adversely affecting our financial performance, cashflow, available cash and working capital balance, financing options, revenue and financial results;

- Coronavirus infection could harm the health of one or more of our employees, including key employees, which could in turn require us to reduce the workforce or completely shut down all, or almost all, work in our facility in order to prevent further infections and spread of the Coronavirus. Key employees may lose their ability to manage and run our operations, share their knowhow and further pursue the development of our products and business;
- Issuance of quarantine orders by governmental authorities, prohibiting some or all of our employees to exit their home other than for specific purposes, which could in turn require us to reduce the workforce or completely shut down all, or almost all, work in our facility, and could have an adverse effect on our operations, including marketing and sales activities;
- Disruption, reduction or interruption in supply, including potential disruptions in our global supply chain, disruption to our suppliers, manufacturers or customers and their other vendors, lack or delay in the supply of raw materials and goods, or in the performance of work or services by our contractors and subcontractors;
- Slowdown in production and manufacturing, and a significant increase in the price of one or more components or materials;
- Disruptions or restrictions on our operations and those of our suppliers, contractors and customers, including on our or their ability to travel, distribute, install or maintain our products or provide services relating thereto, due to, among other things, restrictions on mobility, quarantine or lockdown orders or similar event in territories in which we or our customers are operating, as well as temporary closures of our facilities or the facilities of our suppliers, manufacturers or customers, and prohibitions on the export, import or release from customs of product and components;
- Disruptions or restrictions on our marketing and sales operations, ability to submit bids and purchase orders, participate in RFPs and contract negotiations and site-visits and surveys, difficulties in engaging subcontractors or hire new employees, inability to provide outdoor/field services or reach our facilities to provide certain after sale support, maintenance and repair services;
- Lower work efficiency and productivity, service quality, and financial performance generally;
- Imposition of fines, penalties, damages and contract terminations (including the exercise of certain force majeure clauses), and damage to our reputation and relationships with our customers, as a result of delays in production, shipment and deliveries due to any of the above constraints;
- Financial difficulties and insolvencies of major customers, which could lead to slowing the payment of their obligations to us or even discharging those obligations;
- Difficulties in collection of amounts due from customers and in satisfying revenue recognition procedures or collection/payment procedures, including inability to surrender or receive payment documents such acceptance certificates, invoices, receipts, guaranties, bills of lading, airway bills or documentary payment certificates, and in particular, to surrender hard copy originals were required;
- Difficulties in obtaining credit lines, financing or financial services, including issuance of bid bonds, advance payment bonds, performance and warranty bonds, insurance policies and credit risk hedging facilities, creation of credit crunch and lack of financing or fund raising activities, which might adversely affect our liquidity, credit rating or other obligations to our lenders or creditors, or limit or hinder our ability to obtain new orders or be awarded new contracts or do business generally;
- Inability to dismiss or suspend the employment of employees due to ad-hoc local protective legislation while blocking the Company's ability to effectively pursue cost-saving measures;



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- Inability to remotely access our IT systems or work from home during full or partial lockout, and exposure to endpoint and communication channels and gateways cyber-attacks;
- Macro-Economic downturn and slowdown of development and significant decline of business that can harm our customers' ability to develop their business and pursue network development towards 5G, and consequently, our ability to grow our business or gain 5G design wins, including, postponement of rollout of wireless networks, postponement in the transition to 5G technologies and in the introduction of new products and capabilities, and suspension or reduction in the investment in new technologies and new equipment purchases;
- Disengagement on part of our business or other partners, walk away from or breach of agreements on part of partners, contractors, subcontractors suppliers or customers, entering into disagreements, disputes and litigation; all, as a result from the materialization of any of the risks detailed in this risk factor with respect to our business or the business of our counterparty, may incur significant expenditure and loss;
- Disruption of our working routines, delays and errors due to difficulties to enable joint work or work-teams gathering, connectivity, remote access and lack of equipment issues, difficulties in and inefficiencies of our effective control over our business and operations, delays in projects' timelines and annual business plan implementation, delay in managerial and financial reporting, inability to perform audits and apply effective financial controls, or failure under other regulatory requirements to which we are subject; and
- Adverse effect on our business as a result from the materialization of these or similar risks with respect to our significant customers.

Further realization of any of these or other risks could adversely affect various aspects of our results of operations, including our cash flow and financial condition. In addition, the difficulty to project future revenues at those circumstances, could have an adverse effect on our ability to timely report future revenues, profitability and cash flow.

Equity

The share capital towards the Company's sole shareholder is 90.000.000 NOK.

Total assets at the end of the year amounted to 257M NOK. The company's equity as of December 31, 2020 was 203M NOK.

Working environment and personnel

Sick leave was 1.93% in 2020 compared to 1.34% in 2019. In 2020 there have not been any incidents of work-related illness. No industrial injuries were reported in 2020.

In connection with repetitive strain injuries and work-related diseases, Ceragon Networks AS has continued the work with early follow-up and adaptation of work premises.

Ceragon Networks AS is committed to ensure equal treatment of employees and applicants for positions at all levels of the company, regardless of gender, ethnicity or otherwise. Similarly, salaries reflect the position and qualifications, regardless of gender or other factors. At the end of 2020 the proportion of women was 29.8%. The average salary for woman was 66.4% of the average salary for men.

The company does not pollute the environment of any significance.



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Outlook

Global competition and current market conditions, including those specifically impacting the telecommunications industry, have resulted in downward pressure on the prices for our products, which could result in reduced revenues, gross margins, profitability and demand for our products and services. Currently, we and other manufacturers of telecommunications equipment are experiencing, and are likely to continue to experience, increased downward price pressure, particularly as we increase our customer base to include more Tier 1 customers.

The uncertainties in the world with low oil prices have impacted the Oil & Gas industry, there has been a slowdown in the industry especially in the exploration side of the business which has meant that many projects have been postponed until 2021 or even further out. Production has been kept going at a reduced capacity. If the demand of oil grows again, we expect that these projects would be brought forward again.”

The Maritime industry, especially the cruise line and ferry business has been severely impacted by Covid-19 by large reduction of number of passengers which have led to financial difficulties in this industry. The predictions are that as countries come out of lock-down, this would gradually increase the numbers of passengers for the ferries in 2021 which would lead them back to profitability while the cruise lines might need longer time to recover.

Due to mentioned above, we are seeking alternative markets for our solutions, like off-shore mining, defense & aerospace.

As a result, we are likely to continue to experience declining average sales prices for our products. Our future profitability will depend upon our ability to improve manufacturing efficiencies, to reduce costs of materials used in our products, and to continue to introduce new lower cost products and product enhancements.

Our success in handling a possible contraction of our business due to economic turmoil and market conditions will depend on our ability, among other things, to develop efficient forecast methods for evaluating the prospective quantity of products that will be ordered by our customers and to control inventories of components ordered by our contract manufacturers required to meet actual demand, including but not limited to handling the effects of excess inventories accumulated by such manufacturers by reducing the costs of manufacturing our products, collect receivables from our customers in full and in a timely manner, and properly balance the size and capabilities of our workforce.

Going concern assumption

Caragon Networks AS has been funded by its owner to cover current obligations. Due to cost reduction initiatives and currency exchanges, the company had profits. The equity situation is satisfactory. The Board of Directors and the Managing Director are of the opinion that the submission of the financial statements should be based on the going concern assumption.

True and fair view

The Board believes that the financial statements give a true and fair picture of the company's assets and liabilities, financial position and results.



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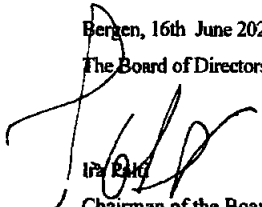
Allocation of the result

The result of Ceragon Networks AS in 2020 was a loss of 5M NOK which is proposed allocated as follows:

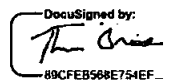
Transferred from other equity	5M NOK
Total allocated	5M NOK

Bergen, 16th June 2021

The Board of Directors, Ceragon Network AS


Lars Erik
Chairman of the Board


Ran Vered
Board Member

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Lars Thomas Ørnevik
Board member/General manager


Yngvil Ellingsen Dahl
Board Member



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Financial statement 2020
Ceragon Networks AS



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Income Statement			
Ceragon Networks AS			
Amounts in NOK 1 000			
Operating income and operating expenses	Note	2020	2019
Revenue	2	55 148	62 077
Total operating income		55 148	62 077
Cost of goods		16 653	14 109
Personnel expenses	3	20 648	20 613
Depreciations	4	327	265
Other operating expenses (income)		16 080	25 736
Total operating expenses		53 708	60 723
Operating profit		1 440	1 354
Financial and other expenses			
Financial income	9	-1 134	-445
Financial expenses	9	7 814	1 253
Other expenses		0	1 450
Net financial and other expenses (income)		6 680	2 258
Operating result before tax		-5 240	-904
Tax income on ordinary result	8	7	7
Ordinary result after tax		-5 247	-911
Annual net profit (loss)		-5 247	-911
Brought forward			
Transferred from other equity		5 247	911
Net brought forward		-5 247	-911

Ceragon Networks AS

Side 2



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Balance sheet			
Ceragon Networks AS			
Amounts in NOK 1 000			
Assets	Note	2020	2019
Fixed assets			
Tangible assets			
Property, plants and equipment	4	1 281	905
Total tangible assets		1 281	905
Financial fixed assets			
Investments in subsidiaries	12	74 893	74 893
Loan to group companies		47 431	0
Total financial fixed assets		122 324	74 893
Total fixed assets		123 605	75 798
Current assets			
Inventories	16	3 289	2 056
Debtors			
Accounts receivables	10	115 791	189 130
Other short-term receivables	11	5 597	3 769
Total receivables		121 388	192 899
Cash and bank deposits	7	8 755	10 857
Total current assets		133 432	205 812
Total assets		257 038	281 610

Ceragon Networks AS

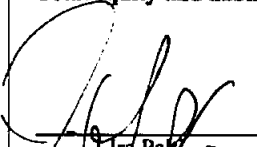
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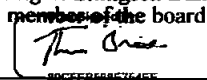
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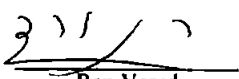
Balance sheet			
Ceragon Networks AS			
Amounts in NOK 1 000			
Equity and liabilities	Note	2020	2019
Paid-up equity			
Share capital	1, 15	90 000	90 000
Share premium reserve	1	376 772	376 772
Total paid-up equity		466 772	466 772
Retained earnings			
Uncovered loss	1	-263 758	-258 511
Total retained earnings		-263 758	-258 511
Total equity		203 014	208 261
Liabilities			
Provisions for liabilities			
Pension liabilities	13	21 424	20 823
Total provisions		21 424	20 823
Current debt			
Trade creditors		24 463	46 657
Advances from customer/processing contracts		2 498	0
Other current debt	14	5 639	5 869
Total current debt		32 600	52 526
Total liabilities		54 024	73 349
Total equity and liabilities		257 038	281 610

Place/ Date: Bergen,
The board of Ceragon Networks AS


Ira Pakk
chairman of the board


Yngvil Ellingsen Dahl
member of the board


Lars Thomas Ornevik
member of the board/General Manager


Ran Vered
member of the board

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Indirect cash flow			
Ceragon Networks AS			
Amounts in NOK 1000			
	Note	2020	2019
Cash flows from operating activities			
Profit/loss before tax		-5 240	-904
Ordinary depreciation		327	265
Change in inventory		-1 233	682
Change in accounts receivable		73 338	1 237
Change in accounts payable		-19 701	6 375
Change in other accrual items		-1 459	-7 961
Net cash flows from operating activities		46 032	-306
Cash flows from investment activities			
Proceeds (Purchase) of fixed assets		-703	-860
Investment write off (Payments to buy shares)		0	1 450
Net cash flows from investment activities		-703	590
Cash flows from financing activities			
Loan to inter-group company		-47 431	0
Net cash flows from financing activities		-47 431	0
Net change in cash and cash equivalents		-2 102	284
Cash and cash equivalents at the start of the period		10 857	10 573
Cash and cash equivalents at the end of the period		8 755	10 857



NOTES TO THE FINANCIAL STATEMENTS 2020

Accounting principles

The financial statements have been prepared in compliance with the Accounting Act and accounting principles generally accepted in Norway.

Use of estimates

The preparation of financial statements in compliance with the Accounting Act requires the use of estimates. The application of the company's accounting principles also require management to apply assessments. Areas which to a greater extent contain such assessments, a high degree of complexity, or areas in which assumptions and estimates are significant for the financial statements, are described in the notes.

Revenues

Income from sale of goods and services are recognized at fair value of the consideration, net after deduction of VAT, returns, discounts and reductions. Sales are taken to income when the company has delivered its products to the customer and there are no unsatisfied commitments which may influence the customer's acceptance of the product. Delivery is not completed until the products have been sent to the agreed place, and risks relating to loss and obsolescence have been transferred to the customer. Historical data is applied to estimate and recognize provisions for quantity rebates and returns at the sales date. Provisions for expected guarantee work are recognized as expenses and provisions for liabilities. Services are recognized in proportion to the work performed.

Revenues – change in accounting principle

Income from long-term manufacturing contracts has in previous years been recognized in the income statement in accordance with the percentage of completion method. Project income included direct materials, wages and other directly assigned expenses, and indirect expenses and share of project profit that fall under the project. Contracts where delivery of equipment distinctly could be separated from installation, training etc., are split up and recognition of income is calculated individually for each part.

As of 1 January 2013, the percentage of completion method is no longer applied and revenue and cost have been recognized upon delivery of equipment and installation service.

Purchase costs

The purchase cost of assets includes the cost price for the asset, adjusted for bonuses, discounts and other rebates received, and purchase costs (freight, customs fees, public fees which are non-refundable and any other direct purchase costs). Purchases in foreign currencies are reflected in the balance sheet at the exchange rate at the transaction date.

For fixed assets and intangible assets purchase cost also includes direct expenses to prepare the asset for use, such as expenses for testing of the asset.

Interest expense incurred in connection with the production of fixed assets is expensed.

Intangible assets

From 2011 the company no longer perform R&D activities in its own account, but provide R&D services to its parent company and the IP rights have been sold. R&D activities has come to an end in 2014



Fixed assets

Land is not depreciated. Other fixed assets are reflected in the balance sheet and depreciated to residual value over the asset's expected useful life on a straight-line basis. If changes in the depreciation plan occur the effect is distributed over the remaining depreciation period. Direct maintenance of an asset is expensed under operating expenses as and when it is incurred. Additions or improvements are added to the asset's cost price and depreciated together with the asset. The split between maintenance and additions/improvements is calculated in proportion to the asset's condition at the acquisition date.

Leased assets are reflected in the balances sheet as assets if the leasing contract is considered a financial lease.

Investments in other companies

Except for short term investments in listed shares, the cost method is applied to investments in other companies. The cost price is increased when funds are added through capital increases or when group contributions are made to subsidiaries. Dividends received are initially taken to income. Dividends exceeding the portion of retained equity after the purchase are reflected as a reduction in purchase cost. Dividend/group contribution from subsidiaries are reflected in the same year as the subsidiary makes a provision for the amount. Dividend from other companies are reflected as financial income when it has been approved.

Asset impairments

Impairment tests are carried out if there is indication that the carrying amount of an asset exceeds the estimated recoverable amount. The test is performed on the lowest level of fixed assets at which independent cash flows can be identified. If the carrying amount is higher than both the fair value less cost to sell and recoverable amount (net present value of future use/ownership), the asset is written down to the highest of fair value less cost to sell and the recoverable amount.

Previous impairment charges, except write-down of goodwill, are reversed in later periods if the conditions causing the write-down are no longer present.

Inventories

Inventories are valued at the lower of purchase cost (according to the FIFO principle) and fair value. Recoverable amount has been used as approximation to net realizable value for raw materials and work in progress. For finished goods and work in progress purchase cost comprises cost of product design, material consumption, direct payroll expenses and other direct and indirect production expenses (based on normal capacity). Fair value is estimated sales costs less expenses for completion and sale. Only variable expenses are considered necessary to sell finished goods, whilst fixed production expenses are also included as necessary for not finished goods.

Debtors

Trade debtors are recognized in the balance sheet after provision for bad debts. The bad debts provision is made on basis of an individual assessment of each debtor and an additional provision is made for other debtors to cover expected losses. Significant financial problems at the customers, the likelihood that the customer will become bankrupt or experience financial restructuring and postponements and insufficient payments, are considered indicators that the debtors should be written down.

Other debtors, both current and long term, are recognized at the lower of nominal and net realizable value. Net realizable value is the present value of estimated future payments. When the effect of a write-down is insignificant for accounting purposes this is, however, not carried out. Provisions for bad debts are valued the same way as for trade debtors.

Foreign currencies

Receivables and liabilities in foreign currencies which are not secured through forward contracts, are taken to income at the exchange rate on the balance sheet date. Exchange gains and losses relating to sales and purchases in foreign currencies are recognized as operating income and cost of goods sold.



Liabilities

Liabilities, with the exception of certain liability provisions, are recognized in the balance sheet at nominal amount.

Guarantee commitments/complaints

Guarantee commitments relating to completed sales are valued at the estimated cost of such work. The estimate is made on the basis of historical figures for guarantee work, but adjusted for expected differences due to, for instance, changes in quality assurance routines and changes in product range. The provision is recognized under 'Other short term liabilities' and changes in the provision are recognized in income.

Pensions

The company has various pension schemes. The pension schemes are financed through payments to insurance companies, with the exception of the early retirement pension scheme (AFP). The company has both defined contribution plans and defined benefit plans.

Defined contribution plan

With a defined contribution plan the company pays contributions to an insurance company. After the contribution has been made the company has no further commitment to pay. The contribution is recognized as payroll expenses. Prepaid contributions are reflected as an asset (pension fund) to the degree the contribution can be refunded or will reduce future payments.

Defined benefit plan

A defined benefit plan is a pension scheme which is not a defined contribution plan. A defined benefit plan is a pension scheme which defines a pension payment which an employee will receive at pension age. The pension payments are normally dependent on one or more factors such as age, number of years in the company, and salary. The commitment relating to the defined benefit plan on the balance sheet is the present value of the defined benefits at the balance sheet date less fair value of the pension funds (amount paid to an insurance company), adjusted for estimate differences and expenses relating to former period's pension earnings not recognized in the income statement. The pension commitments are calculated annually by an independent actuary on a straight-line earning profile basis.

Changes to the pension plan are expensed over the expected remaining earning period. The same applies to estimate differences due to new information or changes in the actuarial assumptions, if they exceed 10% of the largest of the pension commitments and pension funds (corridor).

Taxes

The tax charge in the income statement includes both payable taxes for the period and changes in deferred tax. Deferred tax is calculated at relevant tax rates on the basis of the temporary differences which exist between accounting and tax values, and any carry forward losses for tax purposes at the year-end. Tax enhancing or tax reducing temporary differences, which are reversed or may be reversed in the same period, have been eliminated. The disclosure of deferred tax benefits on net tax reducing differences which have not been eliminated, and carry forward losses, is based on estimated future earnings. Deferred tax and tax benefits which may be shown in the balance sheet are presented net.

Tax reduction on group contributions given and tax on group contribution received, booked as a reduction of cost price or taken directly to equity, are booked directly against tax in the balance sheet (offset against payable taxes if the group contribution has affected payable taxes, and offset against deferred taxes if the group contribution has affected deferred taxes).

Deferred tax is reflected at nominal value.

Cash flow statement

The cash flow statement has been prepared according to the indirect method. Cash and cash equivalents include cash, bank deposits, and other short term investments which immediately and with minimal exchange risk can be converted into known cash amounts, with due date less than three months from purchase date.



Stock options

The Company operates an equity-settled, share-based compensation plan where employees are granted option in Ceragon Networks Ltd. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The Company estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the income statement. The company have selected the binomial option pricing model as the most appropriate fair value method for the share option awards based on the market value of the underlying shares at the date of grant. The company recognize compensation expenses for the value of our awards, which have graded vesting, based on the accelerated attribution method over the requisite service period, net of estimated forfeitures. Estimated forfeitures are based on actual historical preventing forfeitures and on management's estimates.

Consolidated financial statement

Ceragon Networks AS is part of the Ceragon Networks Ltd Group and therefore consolidated in their financial statements. The Consolidated Financial Statements for the Ceragon Group can be obtained from Ceragons's webpage www.ceragon.com.



Note 1 - Equity

Changes in equity for the year:

(Amounts in 1 000 NOK)	Share capital	Share premium	Other Equity	Total equity
Equity as of 01.1.2020	90,000	376,772	-258,511	208,261
Annual result	0	0	-5,247	-5,247
Equity 31.12.2020	90,000	376,772	-263,758	203,014

Note 2 - Revenues per market area

(Amounts in 1 000 NOK)	2020	2020	2019	2019
Norway	22,903	41.5 %	29,061	46.8 %
Rest of Europe	15,839	28.7 %	19,349	31.2 %
America	5,535	10.0 %	1,032	1.7 %
Africa	23	0.0 %	163	0.3 %
Asia/Oceania	10,849	19.7 %	12,472	20.1 %
Total	55,148	100.0 %	62,077	100.0 %

(Amounts in 1 000 NOK)	2020	2020	2019	2019
External sales	43,534	78.9 %	60,514	97.5 %
Internal sales	11,614	21.1 %	1,563	2.5 %
Total	55,148	100.0 %	62,077	100.0 %

Note 3 - Wage costs,

(Amounts in 1 000 NOK)	2020	2019
Wages and holiday allowance	15,847	16,425
Other remuneration etc.	957	234
Social costs	3,258	3,368
Pension costs	587	587
Total	20,648	20,613

Number of man-years	24.1	24.7
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Share options

The Board of Ceragon Networks Ltd has granted stock options in Ceragon Networks Ltd to management and key employees. All stock options are granted at the quoted market price of the stock based on average 30 days prior the date of the grant. The majority of the stock options granted are performance based and earned and have graded vesting over a certain service period. When employees are given stock options they do not gain control over options for a period of time. This period is known as the vesting period and is usually 4 years. During the vesting period the employee cannot sell or transfer the stock or options. The Company estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the income statement. The company has selected the binomial option pricing model as the most appropriate fair value method for the share option awards based on the market value of the underlying shares at the date of grant. The company recognize compensation expenses for the value of our awards, which have graded vesting, based on the accelerated attribution method over the requisite service period, net of estimated forfeitures. Estimated forfeitures are based on actual

Movement in the number of share options outstanding and their related weighted average exercise prices (in USD) are as follows:

	Average exercise price	No. of options
01.01.2020		47,695
Granted	2.42	8,600
Forfeited	0.00	0
Cancelled	0.00	0
Expired	0.00	0
Exercised	0.00	0
31.12.2020		56,295



Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry	Average exercise price	No. of options
29.1.2021	4.76	3,000
1.4.2021	1.19	2,120
1.6.2021	11.54	4,000
1.6.2022	9.01	5,000
3.3.2023	4.76	4,000
1.6.2023	3.19	12,375
1.9.2024	3.56	7,200
6.10.2025	2.54	10,000
13.9.2026	2.42	8,600
Sum		56,295

Wages, pension premium and other remuneration to managing director and board of directors 2020:

(amounts in 1 000 NOK)	Wages/bonus	Pension premium	Other remuneration
Managing director, Thomas Ornevik	1,590	74	74

No loan/security have been granted to managing director, chairman of the board or other related parties.

Managing director has 26 575 share options outstanding as of 31.12.2020 at an average exercise price of USD 3.12.

Note 4 - Property, Plant and Equipment

(amounts in 1 000 NOK)	Machinery and plants	Fixtures and fittings	TOTAL
Acquisition cost 01.01.20	22,220	134	22,354
Additions	703	0	703
Disposal and translation differences 2020	-851	0	-851
Acquisition cost 31.12.20	22,072	134	22,206
Accumulated depreciations 01.01.20	21,315	134	21,449
Depreciations for the year	327	0	327
Disposal and translation differences 2020	-851	0	-851
Accumulated depreciations 31.12.2020	20,791	134	20,925
Book value 31.12.2020	1,281	0	1,281
Depreciation period	5 - 15 years	3-10 years	

Note 5 - Leasing

The company has entered into leasing contracts for property, plant and equipment not recognized in the balance sheet, where the following amounts have been recognized as expense in the income statement:

(amounts in 1 000 NOK)	2020	2019
Buildings	1,505	2,092
Total	1,505	2,092



Note 6 - Intangible assets

(amounts in 1 000 NOK)

Intangible assets per 31.12.2019:

	IT-software	TOTAL
Acquisition cost 01.01.2020	10,534	10,534
Additions 2020	0	0
Disposal 2020	0	0
Acquisition cost 31.12.2020	10,534	10,534

Accumulated depreciations/write-down 01.01.2020	10,534	10,534
Depreciations for the year 2020	0	0
Disposal 2020	0	0
Impairment for the year 2020	0	0
Accumulated depreciations/impairment per 31.12.2020	10,534	10,534
Book value 31.12.2020	0	0

Depreciation period 3 - 10 years

Note 7 - Cash and cash equivalents

Per 31.12.2020 the company's liquid assets comprise cash and bank deposits, in total TNOK 8,755.

The company has no restricted funds relating to bank guarantees to customers or to employees' tax deduction.

Liability for employees' tax deduction owing per 31.12.2020 is secured by a bank guarantee with nominal value TNOK 1.400

(amounts in 1 000 NOK)	2020	2019
Net value bank and cash	8,755	10,857
Value of bank deposit in the balance sheet per 31.12	8,755	10,857



Note 8 - Taxes

(amounts in 1 000 NOK)

Temporary differences:	12/31/2020	12/31/2019	Change
Property, plant and equipment and intangible assets	-14,236	-16,652	-2,416
Inventories	-1,308	-5,214	-3,906
Receivables DD	-467,624	-466,725	900
Pensions	-21,424	-20,823	601
Total temporary differences	-504,593	-509,413	-4,822
Carry forward loss	-180,690	-170,628	10,061
Total basis for deferred tax assets	-685,281	-680,042	5,240
Deferred tax assets	-150,762	-149,609	-1,153
Deferred tax asset not recognized in the balance sheet	150,762	149,609	-1,153
Deferred tax assets recognized in the balance sheet	0	0	0
Tax rate	22%	22%	

Due to uncertainty related to future use of the tax positions, deferred tax assets are not recognized in the balance sheet.

Calculation of tax basis for the year:	2020	2019
Result before tax expense	-5,240	-904
Net permanent differences	0	0
Change in temporary differences	-4,822	-57,230
Taxform this year	-10,061	-58,134
Application of loss carry forward from previous years	0	0
Tax related result	0	0

Tax expense:	2020	2019
*Payable tax	7	7
Tax expenses	7	7

* Relates to a tax provision not applicable to Norway.

Reconciliation of tax expense	2020	2019
Operating results before tax	-5,240	-904
Calculated tax	-1,153	-199
*Booked tax expense	7	7
Change in deferred tax not recognized in the balance sheet	-1,153	-199
Other provision	-7	-7
Change in tax expense	-1,160	-206



Note 9 - Finance items

Financial income and financial expenses comprise the following elements:

(amounts in 1 000 NOK)	2020	2019
Gain on exchange interest income	-1,134	-445
Total financial income	-1,134	-445

(amounts in 1 000 NOK)	2020	2019
Interest expenses	31	367
Loss on exchange	7,783	887
Total financial expenses	7,814	1,254

Net financial expense/(income)	6,680	808
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Note 10 - Accounts receivables

(amounts in 1 000 NOK)	2020	2019
External trade receivables, nominal value	138,808	142,059
Internal trade receivables, nominal value	488,709	557,899
Provision for doubtful debts	-511,726	-510,828
Deferred revenue	0	0
Trade receivables	115,791	189,130

Note 11 - Other receivables

(amounts in 1 000 NOK)	2020	2019
Other receivables per 31.12.:	2020	2019
Pre-paid external expenses	591	451
Vat owing (Norway)	3,811	2,143
Other short-term receivables	1,195	1,177
Value in balance sheet other short-term receivables	5,597	3,770

Note 12 - Investment in subsidiaries

Shares in subsidiaries per 31.12.2020

Company	Business address	Currency	Share capital (1,000)	Share- holding	Voting share	Book value
Nera Invest AS	Norway	NOK	100	100%	100%	95
Ceragon America Latina Ltda	Brasil	BRL	10718	100%	100%	50,873
Ceragon Networks Srl	Italia	EUR	10	100%	100%	6,805
Ceragon Chile S.A.	Chile	CLP	1	100%	100%	0
NERA Microwave Nigeria Lt	Nigeria	NGN	10000	100%	100%	0
Ceragon telecommunicacione	Uruguay	UYU	1800	98%	100%	0
Ceragon Paraguay S.A	Paraguay	PYG	20000	90%	90%	0
Ceragon Networks (South Af	Sør-Afrika	ZAR	0.1	100%	100%	0
Ceragon Argentina S.A.	Argentina	ARS	608	95%	100%	0
OOO Ceragon Networks (Mo	Russland	RUB	135	100%	100%	0
Ceragon Networks s.r.o	Slovakia	EUR	7	100%	100%	16,257
Ceragon Networks d.o.o	Serbia	EUR	0.5	100%	100%	863
Total						74,893



Note 13 - Pensions

Each employee participate in a collective pension scheme according to Norwegian Act of mandatory occupational pensions. The majority of employees are in a defined contribution scheme. Former employees and a limited amount of active employees are in a defined benefit scheme which is mainly determined by the number of years of service, salary at retirement and the social security benefit. The obligations related to the collective scheme are covered by an insurance company.

The company also has an early retirement scheme (AFP). The new pension scheme, which applies from 1 January 2011 is regarded as a defined benefit multi-employer plan, but accounted for as a defined contribution plan until there is reliable and sufficient information to enable the Company to account for their proportional share of pension costs, pension liabilities and

(amounts in 1 000 NOK)

Specification of pension cost for the year:	2020	2019
Current service cost	0	43
Interest cost	402	413
Pension costs defined benefit scheme exclusive of payroll tax	402	456
Payroll tax	57	64
Pension costs defined benefit scheme	459	521
Total pension cost	459	521

(amounts in 1 000 NOK)

	Secured schemes	Unsecured schemes	TOTAL
Liability in the balance sheet 31.12.2020 (Defined benefit scheme)			
Calculated pension liability (PBO)	0	18,777	18,777
Net calculated liability	0	18,777	18,777
Gain/loss not recognized in income statement	0	0	0
Total	0	18,777	18,777
Accrued payroll tax	0	2,647	2,647
Net pension liability 31.12.2020	0	21,424	21,424

(amounts in 1 000 NOK)

	Secured schemes	Unsecured schemes	TOTAL
Liability in the balance sheet 31.12.2020 (Defined benefit scheme)			
Calculated pension liability (PBO)	0	18,777	18,777
Plan assets at market value	0	0	0
Net calculated liability	0	18,777	18,777
Gain/loss not recognized in income statement	0	0	0
Total	0	18,777	18,777
Accrued payroll tax	0	2,647	2,647
Net pension liability 31.12.2020	0	21,424	21,424

Number of persons comprised by the defined benefit scheme per 31.12.2020 and 31.12.2019: 27 27

Connection between pension liability 31.12.2019 and 31.12.2020 (defined benefit scheme):

(amounts in 1 000 NOK)

Pension liability 31.12.2019	21,424
Pension cost 2020	0
Paid from operations etc.	0
Estimate change recognized in equity	0
Pension liability 31.12.2020	21,424

ACTUARIAL ASSUMPTIONS:

	12/31/2020	12/31/2019
Return on plan assets	2.70%	3.80%
Discount rate	1.70%	2.30%
Future salary increases	2.25%	2.25%
Annual G-regulation	2.00%	2.00%
Annual regulation of pensions in payment	2.00%	2.00%
Inflation	1.50%	1.50%
Average payroll tax factor	14.10%	14.10%



Note 14 - Other short-term liabilities

(amounts in 1 000 NOK)

Other short-term liabilities per 31.12:	2020	2019
Provision for holiday pay, wages etc.	1,505	1,319
Other provisions/accruals	4,134	4,550
Total external, other short-term liabilities	5,639	5,869

Note 15 - Share capital and shareholders

The share capital in Ceragon Networks AS per 31.12.2020 consists of one share class with in total 5 000 000 shares with nominal value NOK 18 per share. Total share capital per 31.12.2020 is NOK 90 000 000. Each share has the same rights. The company is per 31.12.2020 100% owned by Ceragon (UK) Limited, who is 100% owned by Ceragon Networks Ltd. Ceragon Networks Ltd has its main office in Tel Aviv in Israel.

Note 16 - Inventories

(amounts in 1 000 NOK)

Balance sheet value of inventories per 31.12. :	2020	2019
Manufactured goods	3,289	2,056
Total balance sheet value 31.12.	3,289	2,056

Note 17 - Transactions with related parties

From 2014, Ceragon Networks AS has obtained a license from Ceragon Networks Ltd to sell, distribute, market, promote new IP products

	2020	2019
Sale to Group Companies	-14,375	-16,666
Purchase from Group Companies (COGS)	0	2,454

Note 18 - Events after the balance sheet date

The Coronavirus outbreak which began on December 2019, has dramatically expanded into a worldwide pandemic creating macro-economic uncertainty and disruption in the business and financial markets. Many countries around the world, including Norway, have been taking measures designed to limit the continued spread of the Coronavirus, including the closure of workplaces, restricting travel, prohibiting assembling, closing international borders and quarantining populated areas. Such measures present concerns that may dramatically affect our ability to conduct our business effectively, including, but not limited to adverse effect on employees' health, a slowdown and often a stoppage of commerce, delivery, work, travel and other activities which are essential and critical for maintaining on-going business activities. Given the uncertainty around the extent and timing of the future spread or mitigation of the Coronavirus and around the imposition or relaxation of protective measures, we cannot reasonably estimate the impact to our future results of operations, cash flows or financial condition.



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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Ceragon Networks AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Ceragon Networks AS, which comprise the balance sheet as at 31 December 2020, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the audit of the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that



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includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Independent auditor's report - Ceragon Networks AS

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Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Bergen, 21 June 2021
ERNST & YOUNG AS

The auditor's report is signed electronically

Truls Nesslin
State Authorised Public Accountant (Norway)

Pemseo document key: 2AN4D-IP08Z-HSVT2-7ZEHD-WFL2J-26CXF

Independent auditor's report - Ceragon Networks AS

A member firm of Ernst & Young Global Limited



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"By my signature I confirm all dates and content in this document."

Truls Nesslin

Statsautorisert revisor

On behalf of: Ernst & Young AS

Serial number: 9578-5993-4-2263660

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Skattedirektoratet

Saksbehandler
Rune Tystad

Deres dato
30.09.2011

Vår dato
20.10.2011

Telefon
97 75 94 64

Deres referanse

Vår referanse
2011/953083

ERNST & YOUNG AS
Postboks 6163 Postterminalen
5892 BERGEN

Søknad om fritak for konsernregnskapsplikten, jf. regnskapsloven § 3-7

Det vises til deres brev av 30. september 2011 hvor det søkes om fritak fra plikten til å utarbeide konsernregnskap for Nera Networks AS.

Skattedirektoratet finner med hjemmel i regnskapsloven av 17. juni 1998 nr. 56 § 3-7 fjerde ledd å kunne gi tillatelse til at det gjøres unntak for konsernregnskapsplikten for Nera Networks AS.

Bakgrunn

Nera Networks AS er et norsk morselskap i et underkonsern. Konsernspissen er Ceragon Networks Ltd., hjemmehørende i Israel. Nera Networks AS med datterselskaper vil derfor inngå i det israelske selskapets konsernregnskap. Ceragon Networks Ltd. er notert på New York Stock Exchange og konsernregnskapet avlegges i henhold til US GAAP og på engelsk språk.

Forutsetninger for vedtaket

Det forutsettes at Ceragon Networks Ltd. utarbeider konsernregnskap som omfatter den regnskapspliktige og dennes datterselskap. Det legges til grunn at dette konsernregnskapet er utarbeidet i samsvar med US GAAP og at kravene i regnskapsloven § 3-7 for øvrig følges. Bestemmelsene i regnskapsloven kapittel 8 gjelder tilsvarende for dette konsernregnskapet. Morselskapet kan etter forskrift av 7.9.2006 nr. 1062 til utfylling og gjennomføring mv. av regnskapsloven § 3-7-1 utarbeide konsernregnskapet på norsk, svensk, dansk eller engelsk.

Kopi av dette brev må sendes Regnskapsregisteret i Brønnøysund sammen med årsregnskapet. Det påligger den regnskapspliktige å dokumentere ved dette brev at tillatelsen er gitt.

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Postboks 9200 Grønland
0134 Oslo
For elektronisk henvendelse se www.skatteetaten.no

Besøksadresse
Se www.skatteetaten.no
Org. nr.: 996250318

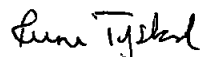
Sentralbord
800 80 000
Telefaks
22 17 08 60



Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen


Torstein Kinden Helleland
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet


Rune Tystad



Skattedirektoratet

Saksbehandler Rune Tystad	Deres dato 03.11.2011	Vår dato 14.11.2011
Telefon 977 59 464	Deres referanse Ina K. Rosenberg	Vår referanse 2011/953083

ERNST & YOUNG AS
Postboks 6163 Beedriftssenter
5892 BERGEN

Dispensasjon fra kravet om utarbeidelse av årsregnskap og årsberetning på norsk språk for Nera Networks AS, org. nr. 979 582 242

Det vises til deres brev av 3. november 2011 hvor det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for Nera Networks AS.

Skattedirektoratet gir på bakgrunn av en konkret helhetsvurdering Nera Networks AS dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd.

Dispensasjonen forutsetter at engelsk språk benyttes i stedet ved utarbeidelsen, og at øvrige opplysninger som vedtaket baserer seg på, heller ikke endres vesentlig.

Bakgrunn

Det vises til at selskapet er innvilget fritak for konsernregnskapsplikten. Nera Networks AS er eid 100 % av Ceragon Networks Ltd. Aksjonærstrukturen er således begrenset. Brukerne av regnskapet er hovedsakelig aksjonærer, banker samt interessegrupper tilknyttet driften (kunder, leverandører etc.). Morselskapet er hjemmehørende i Israel og det israelske selskapets konsernregnskap vil bli avlagt på engelsk. De aller fleste av selskapets kunder, leverandører og andre brukere har engelsk som sitt forretningspråk.

Skattedirektoratets vurdering

Etter regnskapsloven § 3-4 tredje ledd skal *”årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk.”*

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

”Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjævt fordelt informasjon.”

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Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til “*informative regnskaper for ulike grupper av regnskapsbrukere*”. Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet.

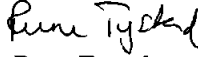
Det er etter Skattedirektoratets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

Som nevnt ovenfor er det særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I denne vurderingen har Skattedirektoratet lagt vekt på at Nera Networks AS er eid 100 % av Ceragon Networks ltd og inngår i et internasjonalt konsern. Videre er det vektlagt at de aller fleste av selskapets kunder, leverandører og andre brukere har engelsk som sitt forretningspråk.

Vennligst oppgi vår referanse ved henvendelser i anledning saken.

Med hilsen


Torstein Kinden Helleland
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet


Rune Tystad



CERAGON NETWORKS LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2020
IN U.S. DOLLARS
INDEX

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Ceragon Networks Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Ceragon Networks Ltd. and its subsidiaries (the "Company") as of December 31, 2019 and 2020, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We did not audit the 2018 financial statements of Ceragon America Latina Ltda., a wholly-owned subsidiary, which reflect total revenues constituting 4.8% for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Ceragon America Latina Ltda. for 2018, is based solely on the report of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 8, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

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Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Inventory valuation

Description of the Matter

The Company's inventories totaled \$50.6 million as of December 31, 2020. As explained in Note 2 to the consolidated financial statements, the Company assesses the value of all inventories, including raw materials finished goods and spare parts, in each reporting period. Reserves for potentially obsolete inventory are made based on management's analysis of inventory aging, future sales forecasts, and market conditions.

Auditing the valuation of obsolete inventory reserves involved subjective auditor judgment because management's estimate relies on significant assumptions such as the future salability of the inventory, the assessment by inventory age, future usage and market demand for the Company's products.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls over the Company's obsolete inventory reserve process. This included management's assessment of the assumptions and data underlying the obsolete inventory valuation.

Our substantive audit procedures included, among others, evaluating the significant assumptions stated above and the accuracy and completeness of the underlying data that management used to value obsolete inventory. We performed inquiries of appropriate non-financial personnel including operational employees, regarding obsolete inventory items and other factors to corroborate management's assertions regarding qualitative judgments about obsolete inventories. We also compared the cost of on-hand inventories to customer demand forecasts and historical sales and evaluated adjustments to sales forecasts for specific product considerations such as technological changes or alternative uses. We also assessed the historical accuracy of management estimates by comparing the forecasted sales to actual utilization of inventory.

KOST FORER GABBAY & KASIERER
A Member of EY Global

We have served as the Company's auditor since 2002
Tel-Aviv, Israel
March 8, 2021



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Ceragon Networks Ltd.

Opinion on Internal Control over Financial Reporting

We have audited Ceragon Networks Ltd.'s and its subsidiaries (the "Company") internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020 and the related notes and our report dated March 8, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

KOST FORER GABBAY & KASIERER
A Member of EY Global

Tel-Aviv, Israel

March 8, 2021



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	Note	December 31,	
		2019	2020
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		\$ 23,939	\$ 27,101
Trade receivables (net of allowance for credit losses of \$ 4,236 and \$ 6,198 at December 31, 2019 and 2020, respectively)	10	118,531	107,388
Other accounts receivable and prepaid expenses	3	11,033	14,755
Inventories	4	62,132	50,627
Total current assets		215,635	199,871
NON-CURRENT ASSETS:			
Long-term bank deposits		17	17
Deferred tax assets	15e	8,106	8,279
Severance pay and pension fund		5,661	6,059
Operating lease right-of-use assets	13	10,128	6,780
Other non-current assets		7,579	13,548
PROPERTY AND EQUIPMENT, NET	5	34,865	31,748
INTANGIBLE ASSETS, NET	6	7,898	6,117
Total long-term assets		74,254	72,548
Total assets		\$ 289,889	\$ 272,419

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



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	Note	December 31,	
		2019	2020
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade payables		\$ 59,635	\$ 63,722
Deferred revenues	16	1,734	3,492
Short-term loans	8	14,600	5,979
Operating lease liabilities	13	5,644	3,183
Other accounts payable and accrued expenses	7	22,755	24,048
Total current liabilities		104,368	100,424
LONG-TERM LIABILITIES:			
Accrued severance pay and pensions		10,709	11,601
Deferred revenues	16	6,265	7,495
Operating lease liabilities	13	4,718	3,840
Other long-term payables		3,408	2,933
Total long-term liabilities		25,100	25,869
COMMITMENTS AND CONTINGENT LIABILITIES			
	12		
SHAREHOLDERS' EQUITY:			
Share capital -	14		
Ordinary shares of NIS 0.01 par value -			
Authorized: 120,000,000 shares at December 31, 2019 and 2020; Issued: 84,144,328 and 85,184,889 shares at December 31, 2019 and 2020, respectively; Outstanding: 80,662,805 and 81,703,366 shares at December 31, 2019 and 2020, respectively		215	218
Additional paid-in capital		418,062	420,958
Treasury shares at cost - 3,481,523 ordinary shares as of December 31, 2019 and 2020		(20,091)	(20,091)
Accumulated other comprehensive loss		(8,666)	(8,068)
Accumulated deficit		(229,099)	(246,891)
Total shareholders' equity		160,421	146,126
Total liabilities and shareholders' equity		\$ 289,889	\$ 272,419

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



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Note	Year ended December 31,		
		2018	2019	2020
Revenues	16	\$ 343,874	\$ 285,583	\$ 262,881
Cost of revenues		<u>227,705</u>	<u>188,741</u>	<u>187,236</u>
Gross profit		<u>116,169</u>	<u>96,842</u>	<u>75,645</u>
Operating expenses:				
Research and development, net		28,180	26,793	30,997
Selling and marketing		42,961	39,469	33,021
General and administrative		<u>18,884</u>	<u>23,278</u>	<u>19,199</u>
Total operating expenses		<u>90,025</u>	<u>89,540</u>	<u>83,217</u>
Operating income (loss)		26,144	7,302	(7,572)
Financial expenses and others, net	18	<u>6,349</u>	<u>6,521</u>	<u>5,923</u>
Income (loss) before taxes on income		19,795	781	(13,495)
Taxes on income (benefit)	15d	(3,251)	2,476	2,618
Equity loss in affiliates		<u>-</u>	<u>649</u>	<u>979</u>
Net income (loss)		<u>\$ 23,046</u>	<u>\$ (2,344)</u>	<u>\$ (17,092)</u>
Net Income (loss) per share:				
Basic net income (loss) per share		<u>\$ 0.29</u>	<u>\$ (0.03)</u>	<u>\$ (0.21)</u>
Diluted net income (loss) per share		<u>\$ 0.28</u>	<u>\$ (0.03)</u>	<u>\$ (0.21)</u>
Weighted average number of ordinary shares used in computing basic net income (loss) per share		<u>78,579,013</u>	<u>80,296,581</u>	<u>81,149,687</u>
Weighted average number of ordinary shares used in computing diluted net income (loss) per share		<u>81,021,527</u>	<u>80,296,581</u>	<u>81,149,687</u>

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



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. dollars in thousands

	Year ended December 31,		
	2018	2019	2020
Net income (loss)	\$ 23,046	\$ (2,344)	\$ (17,092)
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	(1,150)	(360)	(929)
Cash flow hedges:			
Change in net unrealized gains (losses)	(2,260)	1,797	1,752
Amounts reclassified into net income (loss)	1,373	(895)	(225)
Net change	(887)	902	1,527
Other comprehensive income (loss), net	(2,037)	542	598
Total of comprehensive income (loss)	\$ 21,009	\$ (1,802)	\$ (16,494)

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



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Ordinary shares	Share capital	Additional paid-in capital	Treasury shares at cost	Accumulated other comprehensive loss	Accumulated deficit	Total shareholders' equity
Balance as of January 1, 2018	78,045,192	\$ 214	\$ 410,817	\$ (20,091)	\$ (7,171)	\$ (249,871)	\$ 133,898
Cumulative effect of the new revenue recognition standard	-	-	-	-	-	70	70
Exercise of options and vesting of RSU's	2,044,466	*)-	2,611	-	-	-	2,611
Share-based compensation expense	-	-	1,980	-	-	-	1,980
Other comprehensive loss, net	-	-	-	-	(2,037)	-	(2,037)
Net income	-	-	-	-	-	23,046	23,046
Balance as of December 31, 2018	80,089,658	214	415,408	(20,091)	(9,208)	(226,755)	159,568
Exercise of options and vesting of RSU's	573,147	1	601	-	-	-	602
Share-based compensation expense	-	-	2,053	-	-	-	2,053
Other comprehensive loss, net	-	-	-	-	542	-	542
Net loss	-	-	-	-	-	(2,344)	(2,344)
Balance as of December 31, 2019	80,662,805	\$ 215	\$ 418,062	\$ (20,091)	\$ (8,666)	\$ (229,099)	\$ 160,421
Cumulative effect of adoption of ASU Topic 326	-	-	-	-	-	(700)	(700)
Exercise of options and vesting of RSU's	1,040,561	3	1,234	-	-	-	1,237
Share-based compensation expense	-	-	1,662	-	-	-	1,662
Other comprehensive income, net	-	-	-	-	598	-	598
Net loss	-	-	-	-	-	(17,092)	(17,092)
Balance as of December 31, 2020	81,703,366	\$ 218	\$ 420,958	\$ (20,091)	\$ (8,068)	\$ (246,891)	\$ 146,126

*) Represent an amount lower than \$1
The accompanying notes are an integral part of the consolidated financial statements.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended		
	December 31,		
	2018	2019	2020
Cash flows from operating activities:			
Net income (loss)	\$ 23,046	\$ (2,344)	\$ (17,092)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	7,758	9,691	12,861
Share-based compensation expense	1,980	2,053	1,662
Decrease (increase) in accrued severance pay and pensions, net	(11)	271	488
Decrease (increase) in trade receivables, net	(11,098)	4,533	9,345
Decrease (increase) in other accounts receivable and prepaid expenses (including other long-term assets)	4,624	(2,086)	(6,661)
Decrease in operating lease right-of-use assets	-	5,348	5,121
Decrease (increase) in inventories	(956)	(9,475)	9,919
Increase (decrease) in trade payables	2,340	(15,933)	1,953
Increase (decrease) in deferred revenues	(650)	4,150	2,988
Increase in deferred tax assets, net	(6,601)	(258)	(173)
Decrease in operating lease liability	-	(5,114)	(5,112)
Increase (decrease) in other accounts payable and accrued expenses (including other long-term liabilities)	2,062	(3,767)	1,946
Net cash provided by (used in) operating activities	22,494	(12,931)	17,245
Cash flows from investing activities:			
Purchase of property and equipment, net	(10,303)	(11,592)	(6,077)
Purchase of intangible assets, net	(3,412)	(3,274)	(412)
Proceeds from bank deposits	48	1,002	-
Investment in shares	(1,628)	-	-
Net cash used in investing activities	(15,295)	(13,864)	(6,489)

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



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2018	2019	2020
<u>Cash flows from financing activities:</u>			
Proceeds from (repayment of) bank credits and loans, net	\$ -	\$ 14,600	\$ (8,621)
Proceeds from exercise of stock options	2,611	602	1,237
Net cash provided by (used in) financing activities	2,611	15,202	(7,384)
Translation adjustments on cash and cash equivalents	(106)	(49)	(210)
Increase (decrease) in cash and cash equivalents	9,704	(11,642)	3,162
Cash and cash equivalents at the beginning of the year	25,877	35,581	23,939
Cash and cash equivalents at the end of the year	\$ 35,581	\$ 23,939	\$ 27,101
<u>Supplemental disclosure of cash flow information:</u>			
Cash paid for income taxes	\$ 1,617	\$ 3,833	\$ 3,003
Cash paid for interest on bank loans	\$ 1,752	\$ 1,796	\$ 1,137

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

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

- a. Ceragon Networks Ltd. ("the Company") is a leading global wireless backhaul specialist and an enabler of the wireless generation transition to 5G. Its wireless backhaul solutions enable cellular operators and other wireless service providers to deliver voice and data services, enabling smart-phone applications such as internet browsing, social networking applications, image sharing, music and video applications. Its wireless backhaul solutions use microwave radio technology to transfer large amounts of telecommunication traffic between base stations and small-cells and the core of the service provider's network. The Company also provides wireless fronthaul solutions that use microwave technology for ultra-high speed, ultra-low latency communication for wireless 5G and 4G base stations.

The Company's solutions support all wireless access technologies, including 4G (LTE- Advance, LTE) and 5G services. The Company's systems also serve evolving network architectures including all-IP long haul networks, positioning the company as a key enabler of the 5G evolution.

The Company sells its products through a direct sales force, systems integrators, distributors and original equipment manufacturers.

The Company's wholly owned subsidiaries provide research and development, marketing, manufacturing, distribution, sales and technical support to the Company's customers worldwide.

As to principal markets and major customers, see notes 17b and 17c.

- b. Investment in Compass Network Ltd:

In December 2017, the Company signed software license agreement with Compass Networks LTD ("Compass") in the amount of \$ 500 and additional agreement for the purpose of developing Disaggregate Microwave products in August 2018, in an amount of up to \$ 1,500 (out of which \$ 1,300 was capitalized). In addition, the Company signed loan agreements with Compass in the amount of \$ 538, which bear an annual interest rate of 10%.

In December 2018, the Company purchased 14% of the share capital of Compass for a consideration of \$ 833. In December 2019, the holding was decreased to 11% as a result of third-party equity investment. A total investment (including loans) in the amount of \$ 1,628 was recorded under other non-current assets. As of December 31, 2020, the investment amount decreased to zero as a result of equity losses and the intangible assets of \$ 1,800 were fully written-off. To date, the Company does not expect future economic benefits from this asset, inter alia, due to 5G new market requirements (see note 6).



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation:

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP").

b. Use of estimates:

The preparation of financial statements, in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company evaluates its assumptions on an ongoing basis. The Company's management believes that the estimates, judgment, 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 consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

The duration, scope and effects of the ongoing COVID-19 pandemic, government and other third party responses to it, and the related macroeconomic effects, including to the Company's business and the business of the Company's suppliers and customers are uncertain, rapidly changing and difficult to predict. As a result, the Company's accounting estimates and assumptions may change over time in response to this evolving situation. Such changes could result in future impairments of intangibles, fair values of stock-based awards, inventory write-off, warranty provision, income taxes, contingent liabilities, and incremental credit losses on receivables, or an increase in the Company's insurance liabilities as of the time of a relevant measurement event.

c. Financial statements in U.S. dollars:

A majority of the revenues of the Company and certain of its subsidiaries are generated in U.S. dollars ("dollars"). In addition, a substantial portion of the Company's and certain of its subsidiaries' costs is incurred in dollars. Since management believes that the dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate and considers the non-U.S. subsidiaries to be a direct, integral extension of the parent company's operations, the dollar is its functional and reporting currency.

Accordingly, amounts in currencies other than U.S. dollars have been re-measured in accordance with ASC topic 830, "Foreign Currency Matters" ("ASC 830") as follows:

Monetary balances - at the exchange rate in effect on the balance sheet date. Consolidated statements of operations items - average exchange rates prevailing during the year.

All exchange gains and losses from the re-measurement mentioned above are reflected in the statement of operations in financial expenses and others, net.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The financial statements of the Company's Brazilian subsidiary, whose functional currency is not the dollar, have been re-measured and translated into dollars. All amounts on the balance sheets have been translated into the dollar using the exchange rates in effect on the relevant balance sheet dates. All amounts in the statements of operations have been translated into the dollar using the average exchange rate for the relevant periods. The resulting translation adjustments are reported as a component of accumulated other comprehensive income (loss) in shareholders' equity.

d. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries ("the Group"). Intercompany balances and transactions including profits from intercompany sales not yet realized outside the Group, have been eliminated upon consolidation.

e. Cash equivalents:

Cash equivalents include short-term unrestricted, highly liquid investments that are readily convertible to cash and with original maturities of three months or less, at acquisition.

f. Long-term bank deposits:

Long-term bank deposits are deposits with an original maturity of more than twelve months from the date of investment and which do not meet the definition of cash equivalents.

g. Inventories:

Inventories are stated at the lower of cost or net realizable value. Inventory write-offs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, discontinued products, and for market prices lower than cost, if any.

The Company periodically evaluates the quantities on hand relative to historical and projected sales volume (which is determined based on an assumption of future demand and market conditions) and the age of the inventory. At the point of the loss recognition, a new lower cost basis for that inventory is established. In addition, if required, the Company records a liability for firm non-cancelable and unconditional purchase commitments with contract manufacturers for quantities in excess of the Company's future demands forecast consistent with its valuation of excess and obsolete inventory.

Inventory includes costs of products delivered to customers and not recognized as cost of sales, where revenues in the related arrangements were not recognized.

Cost is determined for all types of inventory using the moving average cost method plus indirect costs.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Computers, manufacturing and peripheral equipment	6 – 33
Office, furniture and equipment	Mainly 15
Leasehold improvements	Over the shorter of the term of the lease or useful life of the asset

i. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC topic 360, "Property Plant and Equipment", ("ASC 360"), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. During 2018, 2019 and 2020, no impairment losses have been recognized.

j. Income taxes:

The Company account for income taxes in accordance with ASC topic 740, "Income Taxes", ("ASC 740"). This Statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and for carry forward losses deferred taxes are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized. For more information see note 15c.

The Company accounts for uncertain tax positions in accordance with ASC No. 740, "Income Taxes", ("ASC 740"). ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company elected to classify interest expenses and penalties recognized in the financial statements as income taxes. For more information see note 15i.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Intangible assets, net:

Intangible assets consist of technology and incurred software development costs capitalized in accordance with ASC 985-20, "Software - Costs of Software to be Sold, Leased, or Marketed".

Intangible assets that are considered to have definite useful life are amortized using the straight-line basis over their estimated useful lives.

l. Revenue recognition:

The Company recognizes revenue when (or as) it satisfies performance obligations by transferring promised products or services to its customers in an amount that reflects the consideration the Company expects to receive. The Company applies the following five steps: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. For each contract, the Company considers the promise to transfer tangible products, network roll-out, professional services and customer support, each of which are distinct, to be the identified performance obligations. In determining the transaction price, the Company evaluates whether the price is subject to rebates and adjustments to determine the net consideration to which the Company expects to receive. As the Company's standard payment terms are less than one year, the contracts have no significant financing component. The Company allocates the transaction price to each distinct performance obligation based on their relative standalone selling price. Revenue from tangible products is recognized at a point in time when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied).

The revenues from customer support and extended warranty is recognized ratably over the contract period and the costs associated with these contracts are recognized as incurred. Revenues from network roll-out and professional services are recognized when the Company's performance obligation is satisfied, usually upon customer acceptance.

The Company accounts for rebates and stock rotations provided to customers as variable consideration, based on historical analysis of credit memo data, rebate plans and stock rotation arrangements, as a deduction from revenue in the period in which the revenue is recognized.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Research and development expenses, net:

Research and development expenses, net of government grants, are charged to the statement of operations as incurred, except for development expenses which were capitalized in accordance with ASC 985-20 "Software – Costs of Software to be Sold, Leased, or Marketed" (see k above).

n. Warranty costs:

The Company generally offers a standard limited warranty, including parts and labor for an average period of 1-3 years for its products. The Company estimates the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of installed units, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary.

The Company recorded income (expenses) from decrease (increase) of warranty provision for the years ended December 31, 2018, 2019 and 2020 in the amount of \$ (83), \$ 654 and \$ 178, respectively. As of December 31, 2019 and 2020, the warranty provision was \$ 1,452 and \$ 1,274, respectively.

o. Derivative instruments:

The Company has instituted a foreign currency cash flow hedging program using foreign currency forward and option contracts ("derivative instruments") in order to hedge the exposure to variability in expected future cash flows resulting from changes in related foreign currency exchange rates. These transactions are designated as cash flow hedges, as defined under ASC topic 815, "Derivatives and Hedging".

ASC 815 requires companies to recognize all of their derivative instruments as either assets or liabilities in the financial statements at fair value. The Company measured the fair value of the contracts in accordance with ASC topic 820, "Fair value Measurement and Disclosures" at Level 2 (see also note 2f). The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge or a cash flow hedge.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For derivative instruments that don't meet the definition of a hedge, the changes in the fair value are included immediately in earnings in "Financial expenses and others, net", in each reporting period.

The Company's cash flow hedging program is to hedge against the risk of overall changes in cash flows resulting from forecasted foreign currency of salary and rent payments during the year. The Company hedges portions of its forecasted expenses denominated in NIS with forward exchange contracts.

p. Concentrations of credit risk:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, and trade receivables.

The majority of the Company's cash and cash equivalents are maintained in U.S. dollar. Generally, these cash and cash equivalents and deposits may be redeemed upon demand. Management believes that the financial institutions that hold the Company's and its subsidiaries' cash and cash equivalents are institutions with high credit standing, and accordingly, minimal credit risk exists with respect to these assets.

The Company's trade receivables are geographically diversified and derived from sales to customers all over the world. The Company and its subsidiaries generally do not require collateral, however, in certain circumstances, the Company and its subsidiaries may require letters of credit, additional guarantees or advance payments.

The Company and its subsidiaries perform ongoing credit evaluations of their customers and insure certain trade receivables under credit insurance policies.

q. Transfers of financial assets:

ASC 860 "Transfers and Servicing", ("ASC 860"), establishes a standard for determining when a transfer of financial assets should be accounted for as a sale. The Company's arrangements are such that the underlying conditions are met for the transfer of financial assets to qualify for accounting as a sale. The transfers of financial assets are typically performed by the factoring of receivables to two financial institutions.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As of December 31, 2019, and 2020, the Company sold trade receivables to several different financial institutions in a total net amount of \$ 10,422 and \$ 21,993, respectively. Control and risk of those trade receivables were fully transferred in accordance with ASC 860.

During the years ended on December 31, 2018, 2019 and 2020, the Company recorded amounts of \$ 585, \$ 506 and \$ 575, respectively, as financial expense related to its factoring arrangements.

r. Severance pay:

The Company's severance pay liability for its Israeli employees is calculated pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of its employees in Israel is covered by monthly deposits with pension funds, insurance policies and an accrual. The value of the funds deposited into pension funds and insurance policies is recorded as an asset - severance pay fund - in the Company's balance sheet.

The severance pay fund includes the deposited funds and accumulated adjustments to the Israeli Consumer Price Index up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds in insurance policies, is based on the cash surrendered value of these policies and includes profits / losses.

Starting April 2009, the Company's agreements with new employees in Israel are under section 14 of the Severance Pay Law -1963. The Company's contributions for severance pay shall replace its severance obligation, no additional calculations shall be conducted between the parties regarding the matter of severance pay and no additional payments shall be made by the Company to the employee. Further, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as the Company is legally released from obligation to employees once the deposit amounts have been paid.

As of December 2019 and 2020, accrued severance pay amounted to \$ 8,539 and \$ 9,282 respectively. Severance expense for the years ended December 31, 2018, 2019 and 2020, amounted to approximately \$ 2,107, \$ 2,336 and \$ 2,538, respectively.

The Company accounts for its obligations for pension and other postretirement benefits in accordance with ASC 715, "Compensation - Retirement Benefits". For more information refer to note 11.

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Accounting for stock-based compensation:

ASC topic 718, "Compensation - Stock Compensation", ("ASC 718"), requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statements of operations.

The Company estimates the fair value of stock options granted under ASC 718 using the binomial model with the following assumptions for 2018, 2019 and 2020:

	December 31,		
	2018	2019	2020
Dividend yield	0%	0%	0%
Volatility	53%-62%	53%-65%	60%-85%
Risk free interest	1.8%-2.9%	1.2%-2.7%	0.1%-1.0%
Early exercise multiple	2.0-2.3	1.3-2.3	1.5-1.6

Risk-free interest rates are based on the yield from U.S. Treasury zero-coupon bonds with a term equivalent to the contractual life of the options; volatility of price of the Company's shares based upon actual historical stock price movements. The Early exercise factor is representing the value of the underlying stock as a multiple of the exercise price of the option which, if achieved, results in exercise of the option.

Early exercise multiple is based on actual historical exercise activity. The expected term of the options granted is derived from output of the option valuation model and represents the period of time that options granted are expected to be outstanding.

The Company recognizes compensation expense using the accelerated method for all awards ultimately expected to vest. Estimated forfeitures are based on historical pre-vesting forfeitures and on management's estimates. ASC topic 718 requires forfeitures to be estimated and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

t. Fair value of financial instruments:

The Company applies ASC 820, "Fair Value Measurements and Disclosures". Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including, for example, the type of investment, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment and the investments are categorized as Level 3.

The following methods and assumptions were used by the Company and its subsidiaries in estimating their fair value disclosures for financial instruments:

The carrying amounts of cash and cash equivalents, trade receivables, other accounts receivable, trade payables, and other accounts payable and accrued expenses approximate their fair values due to the short-term maturities of such instruments.

The derivative instruments are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC topic 220, "Comprehensive Income". This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in stockholders' equity during the period except those resulting from investments by, or distributions to, stockholders.

The components of accumulated other comprehensive income - ("AOCI") were as follows:

	Unrealized Gains (Losses) on Cash Flow Hedges	Foreign Currency Translation Adjustments	Total
Balance as of January 1, 2020	\$ 318	\$ (8,984)	\$ (8,666)
Other comprehensive income before reclassifications	1,752	(929)	823
Amounts reclassified from AOCI	(225)	-	(225)
Other comprehensive income	1,527	(929)	598
Balance as of December 31, 2020	\$ 1,845	\$ (9,913)	\$ (8,068)

The effects on net income of amounts reclassified from AOCI for the year ended December 31, 2020 derive from realized gains on cash flow hedges, included in operating expenses.

v. Treasury shares:

The Company repurchased its ordinary shares on the open-market and holds such shares as Treasury shares. The Company presents the cost of repurchased treasury shares as a reduction of shareholders' equity.

w. Basic and diluted net earnings per share:

Basic net earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year. Diluted net earnings per share is computed based on the weighted average number of ordinary shares outstanding during each year, plus dilutive potential ordinary shares considered outstanding during the year, in accordance with ASC topic 260, "Earnings Per Share" ("ASC 260").

The total weighted average number of shares related to the outstanding options and RSU's excluded from the calculations of diluted net earnings per share due to their anti-dilutive effect was 2,426,689, 3,473,312 and 4,204,381 for the years ended December 31, 2018, 2019 and 2020, respectively.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Equity method investment

Investments in companies that are not controlled but over which the Company can exercise significant influence are presented using the equity method of accounting.

y. Impact of recently issued Accounting Standards:

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. The new accounting standard became effective for the Company beginning January 1, 2020. The adoption of the standard had an impact on the Company's consolidated financial statements and related disclosures. Please refer to note 10.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new standard requires capitalized costs to be amortized on a straight-line basis generally over the term of the arrangement, and the financial statement presentation for these capitalized costs would be the same as that of the fees related to the hosting arrangements. The new standard is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company adopted the provisions of this update as of January 1, 2020 with no material impact on its consolidated financial statements.

NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2019	2020
Government authorities	\$ 5,168	\$ 5,726
Deferred charges and prepaid expenses	3,639	5,743
Deposits receivable	532	504
Advances to suppliers	357	230
Hedging asset	372	1,937
Other	965	615
	<u>\$ 11,033</u>	<u>\$ 14,755</u>

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4:- INVENTORIES

	December 31,	
	2019	2020
Raw materials	\$ 18,211	\$ 19,764
Work in progress	349	194
Finished products	43,572	30,669
	<u>\$ 62,132</u>	<u>\$ 50,627</u>

During the years ended December 31, 2018, 2019 and 2020, the Company recorded inventory write-offs for excess inventory and slow-moving inventory in a total amount of \$ 2,814, \$ 4,836 and \$ 2,919, respectively that have been included in cost of revenues.

As of December 31, 2020, the Company has an outstanding inventory purchase orders with its suppliers in the amount of \$ 20,750. The commitments are due primarily within one year.

NOTE 5:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2019	2020
Cost:		
Computers, manufacturing, peripheral equipment	\$ 120,796	\$ 125,097
Office furniture and equipment	1,925	1,959
Leasehold improvements	1,716	1,564
	<u>124,437</u>	<u>128,620</u>
Accumulated depreciation:		
Computers, manufacturing, peripheral equipment	86,892	94,294
Office furniture and equipment	1,577	1,500
Leasehold improvements	1,103	1,078
	<u>89,572</u>	<u>96,872</u>
Depreciated cost	<u>\$ 34,865</u>	<u>\$ 31,748</u>

Depreciation expenses for the years ended December 31, 2018, 2019 and 2020 were \$ 7,758, \$ 9,555 and \$ 10,668 respectively.

Changes of property and equipment not resulted in cash outflows as of December 31, 2019 and 2020 amounted of \$ 1,058 and \$ 1,562.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6:- INTANGIBLE ASSETS, NET

Intangible assets:

The following table sets forth the components of intangible assets:

	December 31,	
	2019	2020
Original amounts:		
Technology	\$ 5,155	\$ 3,767
Software development costs	2,879	2,879
	<u>8,034</u>	<u>6,646</u>
Accumulated amortization:		
Software development costs	136	529
Net amounts:		
Technology	5,155	3,767
Software development costs	2,743	2,350
Intangible assets, net	<u>\$ 7,898</u>	<u>\$ 6,117</u>

Technology includes mainly perpetual software licenses to be used in the Company's research and development activities. During 2020, the Company purchased \$ 412 technology, out of which \$ 18 was not resulted in cash flow outflows as of December 31, 2020. Some of the software license agreements provide a commitment of the Company for royalties payments upon future sales of the related developed products. Software development costs are amortized over 7 years. Amortization expenses for the years ended December 31, 2018, 2019 and 2020 amounted to \$ 0, \$ 136 and \$ 393, respectively.

During 2020, technology related to Compass in an amount of \$ 1,800, was fully written off (see Note 1b).

NOTE 7:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2019	2020
Employees and payroll accruals	\$ 12,321	\$ 12,617
Provision for warranty costs	1,452	1,274
Government authorities	2,071	1,612
Accrued expenses	3,675	2,879
Advanced payments from customers	1,731	4,351
Hedging Liability	112	281
Other	1,393	1,034
	<u>\$ 22,755</u>	<u>\$ 24,048</u>



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8:- CREDIT LINES

In March 2013, the Company was provided with a revolving Credit Facility by four financial institutions. The Credit Facility was renewed and amended several times during the past years according to Company's needs and financial position.

In June 2020, the Company signed the latest amendment to the agreement in the frame of which the Credit Facility was extended by 1 year, till June 30, 2021. Furthermore, the amendment includes a decrease in bank guarantees credit lines of \$15,000 to \$70,000, an increase in Credit Facility for loans of \$10,000 to \$50,000. In addition, \$60,000 in allowed letter of credit discounting activities with three specific customers and \$20,000 in receivables factoring permitted under the agreement, have remained unchanged. The amendment also includes changes in definitions in the Credit Facility agreement related to insolvency and bankruptcy conditions.

As of December 31, 2020, the Company has utilized \$5,000 of the \$ 50,000 credit line available for short term loans. During 2020, the credit lines carry interest rates in the range of Libor+2.1% and Libor+2.6%.

The Credit Facility is secured by a floating charge over all Company assets as well as several customary fixed charges on specific assets.

Repayment could be accelerated by the financial institutions in certain events of default including in insolvency events, failure to comply with financial covenants or an event in which a current or future shareholder acquires control (as defined under the Israel Securities Law) of the Company.

The credit agreement contains financial and other covenants requiring that the Company maintains, among other things, minimum shareholders' equity value and financial assets, a certain ratio between its shareholders' equity (excluding total intangible assets) and the total value of its assets (excluding total intangible assets) on its balance sheet, a certain ratio between its net financial debt to each of our working capital and accounts receivable. As of December 31, 2020 and 2019, the Company met all of its covenants.

NOTE 9:- DERIVATIVE INSTRUMENTS

The Company enters into foreign currency forward and option contracts with financial institutions to protect against the exposure to changes in exchange rates of several foreign currencies that are associated with forecasted cash flows and existing assets and liabilities. The Company accounts for its derivative instruments as either assets or liabilities and carries them at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9:- DERIVATIVE INSTRUMENTS (Cont.)

The fair value of derivative contracts in the consolidated balance sheets at December 31, 2020 and December 31, 2019 were as follows:

	<u>Other accounts receivable and prepaid expenses</u>	<u>Other accounts payable and accrued expenses</u>
	<u>December 31, 2020</u>	
Derivatives designated as hedging instruments		
Currency forward contracts	\$ 1,847	\$ 2
Derivatives not designated as hedging instruments		
Currency forward and option contracts	\$ 90	\$ 279
Total derivatives	<u>\$ 1,937</u>	<u>\$ 281</u>
	<u>Other accounts receivable and prepaid expenses</u>	<u>Other accounts payable and accrued expenses</u>
	<u>December 31, 2019</u>	
Derivatives designated as hedging instruments		
Currency forward contracts	\$ 318	\$ -
Derivatives not designated as hedging instruments		
Currency forward and option contracts	\$ 55	\$ 112
Total derivatives	<u>\$ 373</u>	<u>\$ 112</u>
The notional amounts for derivatives contracts were as follows:		
	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Derivatives designated as hedging instruments		
Currency forward contracts	\$ 29,621	\$ 35,089
Derivatives not designated as hedging instruments		
Currency forward and option contracts	<u>\$ 28,532</u>	<u>\$ 31,207</u>

The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is up to 12 months.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains or losses from contracts that were not designated as hedging instruments are recognized in "financial expenses and others, net".



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9:- DERIVATIVE INSTRUMENTS (Cont.)

The effect of derivative contracts on the consolidated statements of operations for the year ended December 31, 2019 and 2020 was as follows:

	Year ended December 31,	
	2019	2020
Operating income (expenses)	\$ 895	\$ 225
Financial income (expenses)	\$ (207)	\$ (894)

The following table sets forth the Company's net assets that were measured at fair value as of December 31, 2019 and December 31, 2020, by level within the fair value hierarchy:

	Fair value hierarchy	Fair value measurements using input type	
		December 31, 2019	December 31, 2020
Derivatives instruments	Level 2	\$ 260	\$ 1,655
Total net assets		\$ 260	\$ 1,655

NOTE 10:- CREDIT LOSSES

Effective January 1, 2020, the Company adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, based on a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. This ASU replaces the incurred loss impairment model with an expected credit loss impairment model for financial instruments, including trade receivables. The Company recorded a cumulative-effect adjustment to its retained earnings as of January 1, 2020 in the amount of \$700.

The amendment requires entities to consider forward-looking information to estimate expected credit losses, resulting in earlier recognition of losses for receivables that are current or not yet due, which were not considered under the previous accounting guidance.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- CREDIT LOSSES (Cont.)

The Company is exposed to credit losses primarily through sales to customers. The Company's expected loss allowance methodology for trade receivable is developed using historical collection experience, current and future economic and market conditions and a review of the current status.

The estimate of amount of trade receivable that may not be collected is based on the geographic location of the trade receivable balances, aging of the trade receivable balances, the financial condition of customers and the Company's historical experience with customers in similar geographies.

Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default.

The following table provides a roll-forward of the allowance for credit losses that is deducted from the amortized cost basis of trade receivables to present the net amount expected to be collected:

	<u>Year ended December 31,</u>
	<u>2020</u>
Balance, at beginning of period	\$ 4,236
Cumulative effect of adoption of ASU Topic 326	700
Provision for expected credit losses	1,636
Amounts written off charged against the allowance and others	<u>(374)</u>
Balance, at end of period	<u>\$ 6,198</u>

NOTE 11:- PENSION LIABILITIES, NET

The Norwegian subsidiary Ceragon Networks AS (formerly "Nera Networks AS") has defined contribution schemes and four unfunded pension plans.

Under the defined contributions scheme Ceragon Networks AS makes a payment to the insurance company who administer the fund on behalf of the employee. Ceragon Networks AS has no liabilities relating to such schemes after the payment to the insurance company. As of December 31, 2020, all active employees are in this scheme. The contribution and the corresponding social security taxes are recognized as payroll expenses in the period to which the employee's services are rendered. The defined pension contribution schemes meet the requirements of the law on compulsory occupational pension.

Defined benefit scheme was stopped for admission from December 1, 2007, and persons that were employed after that date were automatically entered into the defined contribution scheme. The schemes give right to defined future benefits. These are mainly dependent on the number of qualifying employment years, salary level at pension age, and the amount of benefits from the national insurance scheme. The commitment related to the pension scheme is covered through an insurance company.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- PENSION LIABILITIES, NET (Cont.)

AFP-scheme - in force from 1 January 2011, the AFP-scheme is a defined benefit multi-enterprise scheme, but is recognized in the accounts as a defined contribution scheme until reliable and sufficient information is available for the group to recognize its proportional share of pension cost, pension liability and pension funds in the scheme. Ceragon Networks AS's liabilities are therefore not recognized as liability in the balance sheet.

The liabilities in respect of Ceragon Networks AS's unfunded pension plans together represent 100% of the PBO (Projected Benefit Obligation) of the entire group.

The following tables provide a reconciliation of the changes in the plans' benefits obligation for the year ended December 31, 2019, and the statement of funds status as of December 31, 2020:

	December 31,	
	2019	2020
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 2,177	\$ 2,368
Service cost	12	-
Interest cost	47	53
Expenses paid	(203)	(201)
Exchange rates differences	(26)	49
Actuarial loss	361	241
Projected benefit obligation at end of year	\$ 2,368	\$ 2,510

The assumptions used in the measurement of the Company' benefits obligations as of December 31, 2019 and 2020 are as follows:

	December 31,	
	2019	2020
Weighted-average assumptions		
Discount rate	2.30%	1.70%
Rate of compensation increase	2.25%	2.25%

The amounts reported for net periodic pension costs and the respective benefit obligation amounts are dependant upon the actuarial assumptions used. The Company reviews historical trends, future expectations, current market conditions and external data to determine the assumptions. The discount rate is the covered bond. For purposes of calculating the 2020 net periodic benefit cost and the 2020 benefit obligation, the Company has used a discount rate of 1.70%. The rate of compensation increase is determined by the Company, based upon its long-term plans for such increases.

The following table provides the components of net periodic benefits cost for the years ended December 31, 2018, 2019 and 2020:

	December 31,		
	2018	2019	2020
Components of net periodic benefit cost			
Service cost	\$ 16	\$ 12	\$ -
Interest cost	47	47	53
Net periodic benefit cost	\$ 63	\$ 59	\$ 53



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- PENSION LIABILITIES, NET (Cont.)

Benefit payments are expected to be paid as follows:

	<u>December 31,</u>
	<u>2020</u>
2021	\$ 191
2022	164
2023	156
2024	149
2025 and thereafter	<u>1,850</u>
	<u>\$ 2,510</u>

Regarding the policy for amortizing actuarial gains or losses for pension and post-employment plans, the Company has chosen to charge the actuarial gains or losses to statement of operations.

Interest cost and actuarial gain or losses are presented in financial expenses and others, net.

For the years ended December 31, 2018, 2019 and 2020, an actuarial loss of \$ 97, \$ 361 and \$ 241 respectively, was recognized in "finance expenses and others, net".

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Leases

See Note 13 "Leases" for lease related commitments as of December 31, 2020.

b. During 2018, 2019 and 2020, the Company received several grants from the Israeli Innovation Authority ("IIA"). The grants require the Company to comply with the requirements of the Research and Development Law, however, the Company is not obligated to pay royalties on sales of products based on technology or know how developed from the grants. In a case involving the transfer of technology or know how developed from the grants outside of Israel, the Company may be required to pay royalties related to past sales of products based on the technology or the developed know how. The Company recorded income from IIA grants for the years ended December 31, 2018, 2019 and 2020 in the amount of \$ 1,174, \$ 801 and \$ 996, respectively.

c. Paycheck Protection Program Loan:

In May 2020, the Company received \$979 in proceeds from an approved loan under the Paycheck Protection Program. Interest will accrue on outstanding principal balance at a rate of 1%, computed on a simple interest basis. The loan principal and accrued interest will be eligible for forgiveness provided that (i) the Company uses the loan proceeds exclusively for allowed costs including payroll, employee group health benefits, rent and utilities and (ii) employee and compensation levels are maintained. As of December 31, 2020, the Company has used the full amount of the loan for authorized uses as described above. If the loan is not forgiven, the loan will have up to two years maturity, at which



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

time any unpaid principal and accrued interest will be due and payable. The loan is under "short term loans" in the consolidated balance sheet as of December 31, 2020.

d. Charges and guarantees:

As of December 31, 2019 and 2020, the Company provided bank guarantees in an aggregate amount of \$ 74,116 and \$ 45,847 (including bank guarantee disclosed in Note 12e), respectively, with respect to tender offer guarantees, financial guarantees, warranty guarantees and performance guarantees to its customers.

e. In September 2018, the Company signed commercial agreements with Orocom, a new operator in Peru, to provide broadband connectivity in rural regions. The Peruvian Government ("Pronatel" previously known as "Fitel") chose Orocom for the deployment of transport and broadband access networks in three of six regions in Peru. Orocom is owned by a consortium of companies, comprising telecommunications license holders as well as companies with expertise in fiber-based technologies.

After signing the commercial agreements mentioned above and an operating agreement with Orocom and its shareholders, the Company provided, in the second quarter of 2018, bank guarantees amounting to \$29,100, on behalf of Orocom to Pronatel, to secure the return of a down payment to be received by Orocom, or part of it, in case Orocom fails to meet the down payment related obligations. These bank guarantees came into effect in July 2018, when a down payment of \$29,100 was received by Orocom. During the first quarter of 2020 the bank guarantees were returned to the Company.

For more information see Note 19.

f. Litigations:

The Company is currently involved in various claims and legal proceedings. The Company reviews the status of each matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss.

On January 6, 2015 the Company was served with a motion to approve a purported class action, naming the Company, its Chief Executive Officer and its directors as defendants. The motion was filed with the District Court of Tel-Aviv (the "Court"). The purported class action alleges breaches of duties by making false and misleading statements in the Company's SEC filings and public statements. The plaintiff seeks specified compensatory damages in a sum of up to \$75,000 as well as attorneys' fees and costs.

The Company filed its defense on June 21, 2015, which was followed by disclosure proceedings by both parties.

The plaintiff filed his reply to the Company's defense by April 2, 2017. A preliminary hearing was held on May 22, 2017, in the framework of which the court set dates for response to the Company's above-mentioned requests as well as dates for evidence hearings.

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

In May 2017, the Company filed two requests: the first, requesting to dismiss the plaintiff's response to the Company's defense, or, alternatively, to allow the Company to respond to it; the second, to continue discussions with regards to the legal question of the governing law. On July 17, 2017, the court issued its decision in the first request, denying the requested dismissal of plaintiff's response to the Company's defense, but allowing the Company to respond to it; on July 29, 2017, the Court issued its decision in the second request, and denied it. The Company filed its response on September 18, 2017.

On October 2, 2017, the plaintiff filed a request to summon two of the Company's officers (Company's Chairman, Mr. Zisapel and Company's Chief Executive Officer, Mr. Palti).

The first evidence hearing took place on November 2, 2017 and the second and final evidence hearing took place on January 8, 2018.

Summaries were filed by the plaintiff on March 21, 2018 and the Company filed its summaries on June 12, 2018. The plaintiff filed their reply summaries on September 5, 2018.

On October 4, 2018, an interim decision regarding dual listed companies, which corresponds with the Company's arguments in this case, was rendered by the Supreme Court of Israel. This Supreme court decision upholds two recent rulings of District Court of Tel-Aviv (Economic Department), which determined that all securities litigation regarding dual listed companies should be decided only in accordance with US law (herein after: "Supreme Court Decision").

In light of this, on October 15, 2018, the plaintiff asked from court to add a plea to his summaries. The court has approved plaintiff's request and gave to the defendants the right to reply. In accordance, the Company's response was submitted on December 4, 2018. Plaintiff's reply to Company's response was submitted on December 26, 2018.

On April 14, 2019 the court rendered a decision resolving that according to Supreme Court Decision, examination of the legal questions standing in the basis of the Motion, should be based upon US law.

Therefore, the court allowed the plaintiff to amend its Motion within 45 days, so that it would include an expert opinion regarding US law, and an argument regarding US law implementation in the specific circumstances.

The Court also decided that amendment of the Motion is subject to plaintiff's payment of 40,000 NIS to the Company.

On September 23, 2019, the plaintiff filed an amended Motion ("the Amended Motion"), which includes an expert opinion regarding US federal law. Moreover, The Amended Motion includes lengthy arguments that were added on top of the original Motion, specifically, in reference to discovery proceedings and evidence hearings that were held as part of the original Motion.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Therefore, on September 25, 2019, the Court rendered a decision pointing out that the Amended motion seems to include the plaintiff's summaries in the Amended Motion, and so ordered the plaintiff to clarify whether he is willing to relinquish submitting any additional summaries regarding the evidence that were heard in the original Motion.

On October 2, 2019, plaintiff responded, alleging that since the Amended Motion does not include any new facts, there is no need in submitting additional summaries regarding the evidence that were heard to this point.

On December 30, 2019 the Company submitted a motion to dismiss the Amended Motion. The Company alleged that the Amended Motion includes new causes of action, and specifically that the addition of legal causes of action according to US Federal law, cannot be filed due to the specific statute of limitations.

On January 20, 2020, the plaintiff filed its response. Also, the Court accepted the Company's request to submit its response to the Amended Motion after a decision in the Company's motion to dismiss will be rendered.

On February 24, 2020 the court issued a decision, according to which, the Motion will be decided upon the current court documents, unless either of the parties will file a request to hold a hearing in the matter. As neither of parties requested to hold such a hearing, the parties await the Court's decision in the matter.

The Company believes it has strong defense arguments; Therefore, its current assessment is that it is not probable, that the Court will accept the motion for class action.

To date, the Company is not a party to any other material legal proceedings. Nonetheless, the Company is negotiating a dispute with one of its customers and should the parties fail to reach an amicable settlement, it might lead to a threatened or actual litigation. Albeit the amount under dispute is not material, the Company is exposed to the risk that the said customer shall unlawfully pursue the exercise of a bank guarantee held by it at the amount exceeding the true amount in dispute and which could be material to the Company.

NOTE 13:- LEASES

The Company's leases include offices and warehouses for its facilities worldwide, as well as car leases, which are all classified as operating leases. Certain leases include renewal options that are under the Company's sole discretion. The renewal options were included in the right of use ("ROU") and liability calculation if it was reasonably certain that the Company will exercise the option.

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- LEASES (cont.)

The components of lease expense and supplemental cash flow information related to leases for the years ended December 31, 2019 and 2020 were as follows:

	Year ended December 31,	
	2019	2020
Components of lease expense		
Operating lease cost	\$ 5,624	\$ 5,484
Short-term lease	\$ 75	\$ 43
Total lease expenses	<u>\$ 5,699</u>	<u>\$ 5,527</u>

	Year ended December 31,	
	2019	2020
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities	<u>\$ 5,718</u>	<u>\$ 5,489</u>
Supplemental non-cash information related to lease liabilities arising from obtaining ROU assets	<u>\$ 8,346</u>	<u>\$ 1,773</u>

As of December 31, 2020, the Company has additional operating lease, that has not yet commenced, with lease obligations of approximately \$18,700, for new offices. This operating lease will commence in 2021 with lease term of 10 years.

For the year ended December 31, 2020, the weighted average remaining lease term is approximately three years, and the weighted average discount rate is 6.08 percent. The discount rate was determined based on the estimated collateralized borrowing rate of the Company, adjusted to the specific lease term and location of each lease.

Maturities of lease liabilities as of December 31, 2020 were as follows:

2021	3,286
2022	2,004
2023	1,341
2024	374
2025 and thereafter	<u>840</u>
Total operating lease payments	<u>7,845</u>
Less: imputed interest	<u>822</u>
Present value of lease liability	<u>7,023</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 14:- SHAREHOLDERS' EQUITY

The ordinary shares of the Company are traded on the Nasdaq Global Select Market, under the symbol "CRNT".

a. General:

The ordinary shares entitle their holders to receive notice to participate and vote in general meetings of the Company, the right to share in distributions upon liquidation of the Company, and to receive dividends, if declared.

b. Stock options plans:

- In 2003, the Company adopted a share option plan (the "Plan"). Under the Plan, options and Restricted Share Units ("RSUs") may be granted to officers, directors, employees and consultants of the Company or its subsidiaries. The options vest primarily over four years. The options expire between six to ten years from the date of grant. In December 2012, the Company extended the term of the Plan for an additional period of ten years.

Upon adoption of the Plan, the Company reserved for issuance 8,639,000 ordinary shares in accordance with the respective terms thereof. From the adoption of the plan until December 31, 2020 the board of the company approved to reserve an additional amount of 16,256,688 ordinary shares. Any options or RSUs, which are canceled or forfeited before the expiration date, become available for future grants. As of December 31, 2020, the Company has 1,133,883 Ordinary shares available for future grant under the Plan.

- On September 6, 2010, the Company's board of directors amended the Plan so as to enable to grant RSUs pursuant to such Plan.

- The following table summarizes the activities for the Company's stock options for the year ended December 31, 2020:

	Year ended December 31, 2020			
	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at beginning of year	7,075,600	\$ 3.64	3.30	\$ 1,366
Granted	1,241,930	2.32		
Exercised	(851,958)	1.44		
Forfeited or expired	(1,226,843)	4.36		
Outstanding at end of the year	<u>6,238,729</u>	<u>\$ 3.52</u>	<u>3.17</u>	<u>\$ 2,654</u>
Options exercisable at end of the year	<u>4,017,763</u>	<u>\$ 4.05</u>	<u>2.19</u>	<u>\$ 1,938</u>
Vested and expected to vest	<u>5,806,504</u>	<u>\$ 3.59</u>	<u>3.02</u>	<u>\$ 2,502</u>



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

The weighted average fair value of options granted during 2018, 2019 and 2020 was \$1.79, \$1.39 and \$1.06, respectively.

The intrinsic value of options exercised during the years ended December 31, 2018, 2019 and 2020 was \$4,617, \$626 and \$770, respectively.

The following table summarizes the activities for the Company's RSUs for the year ended December 31, 2020:

	Year ended December 31, 2020	
	Number of RSUs	Aggregate intrinsic value
Unvested at beginning of year	373,623	\$ 785
Granted	160,100	
Vested	(188,603)	
Forfeited	(35,134)	
Unvested at end of the year	309,986	862
Vested and expected to vest	231,013	\$ 642

The weighted average fair value at grant date of RSUs granted during 2018, 2019 and 2020 was \$3.23 \$2.79 and \$2.11, respectively.

As of December 31, 2020, the total unrecognized estimated compensation cost related to non-vested stock options and RSU's granted prior to that date was \$ 1,730, which is expected to be recognized over a weighted average period of approximately one year.

The following is a summary of the Company's stock options and RSUs granted separated into ranges of exercise price:

Exercise price (range) \$	Options and RSUs outstanding as of December 31, 2020	Weighted average remaining contractual life (years) for outstanding options	Weighted average exercise price \$	Options and RSUs exercisable as of December 31, 2020	Weighted average remaining contractual life (years) for exercisable options	Weighted average exercise price \$
RSUs 0.0	309,986	-	0.00	-	-	0.00
0.01-2.00	883,864	0.87	1.24	853,245	0.74	1.22
2.01-4.00	4,291,793	4.11	2.62	2,155,157	3.26	2.70
4.01-6.00	302,654	2.69	4.59	248,943	2.37	4.67
6.01-8.00	15,000	1.75	6.21	15,000	1.75	6.21
8.01-10.00	365,668	1.31	8.92	365,668	1.31	8.92
10.01-13.04	379,750	0.14	12.80	379,750	0.14	12.80
	6,548,715			4,017,763		

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

The total equity-based compensation expense related to all of the Company's equity-based awards, recognized for the years ended December 31, 2018, 2019 and 2020, was comprised as follows:

	Year ended December 31,		
	2018	2019	2020
Cost of revenues	\$ 42	\$ 71	\$ 110
Research and development	313	366	243
Selling and marketing	640	708	545
General and administrative	985	908	764
Total share-based compensation expenses	<u>\$ 1,980</u>	<u>\$ 2,053</u>	<u>\$ 1,662</u>

c. Dividends:

In the event that cash dividends are declared in the future, such dividends will be paid in NIS or in foreign currency subject to any statutory limitations. The Company does not intend to pay cash dividends in the foreseeable future.

NOTE 15:- TAXES ON INCOME

a. Israeli taxation:

1. Measurement of taxable income:

The Company has elected to file its tax return under the Israeli Income Tax Regulations 1986 (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income). Accordingly, starting tax year 2003, results of operations in Israel are measured in terms of earnings in U.S. dollars.

2. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law"):

According to the Law, the Company is entitled to various tax benefits by virtue of the "Approved Enterprise" status granted to part of their enterprises, as implied by this Law. The principal benefits by virtue of the Law are:



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15- TAXES ON INCOME (Cont.)

According to the provisions of the Law, the Company has chosen to enjoy the "Alternative" track. Under this track, the Company is tax exempt in the first two years of the benefit period and subject to tax at the reduced rate of 10%-25% for the remaining benefit period. The benefit period under Approved Enterprise starts with the first year the benefited enterprise earns taxable income, provided that 14 years have not passed since the approval was granted and 12 years have not passed since the enterprise began operating.

Generally, a company that is Abundant in Foreign Investment is entitled to an extension of the benefits period by an additional five years.

The tax benefits under the Approved Enterprise are conditional upon the fulfillment of the conditions stipulated by the Law, regulations published and the letters of approval for the investments in the approved enterprises. Non-compliance with the conditions may cancel all or part of the benefits and refund of the amount of the benefits, including interest.

The Company has three capital investment programs that have been granted Approved Enterprise status, under the Law.

As of December 31, 2020, the 14 years have passed for the three Approved Enterprise programs.

Income from sources other than the "Approved Enterprise" during the benefit period will be subject to the tax at the regular tax rate.

The Company believes it will continue to enjoy its current tax benefits in accordance with the provisions of the Investment Law prior to the 2005 Amendment.

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15- TAXES ON INCOME (Cont.)

In December 2016, the Knesset passed an additional amendment to the Law which provides for additional benefits to Preferred Technological Enterprises by reducing the tax rate on preferred Technological Enterprise income (as such is defined in Amendment 73) to 12% (the "Amendment"). This Amendment came into effect in May 2017 when the Minister of Finance promulgated the regulations for its implementation. The Company has evaluated the effect of the adoption of the Amendment on its financial statements, and as of the date of the approval of the financial statements, the Company did not apply the Amendment. The Company may change its position in the future.

3. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:

The Encouragement Law provides several tax benefits for industrial companies. An industrial company is defined as a company resident and located in Israel, at least 90% of the income of which in a given tax year exclusive of income from specified Government loans, capital gains, interest and dividends, is derived from an industrial enterprise owned by it. An industrial enterprise is defined as an enterprise whose major activity in a given tax year is industrial production activity.

Management believes that the Company is currently qualified as an "industrial company" under the Encouragement Law and, as such, enjoys tax benefits, including: (1) deduction of purchase of know-how and patents and/or right to use a patent over an eight-year period; (2) the right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli industrial companies and an industrial holding company; (3) accelerated depreciation rates on equipment and buildings; and (4) expenses related to a public offering on the Tel-Aviv Stock Exchange and on recognized stock markets outside of Israel, are deductible in equal amounts over three years.

Eligibility for benefits under the Encouragement Law is not subject to receipt of prior approval from any Governmental authority. No assurance can be given that the Israeli tax authorities will agree that the Company qualifies, or, if the Company qualifies, that the Company will continue to qualify as an industrial company or that the benefits described above will be available to the Company in the future.

4. Tax rates:

Taxable income of Israeli companies was subject to tax at the rate - 23% in the years 2018, 2019 and 2020.

The effective tax rate payable by a company which is taxed under the Investment Law may be considerably lower (see also note 15.a2 above). Israeli corporations are generally taxed at the corporate income tax rate on their capital gains.

The Company's tax assessments through 2015 tax year are considered final.

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CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15- TAXES ON INCOME (Cont.)

b. Tax Reform in U.S:

On December 22, 2017, new federal tax legislation was enacted in the United States (referred to as the Tax Cuts and Jobs Act). The Tax Cuts and Jobs Act reduced the federal corporate income tax rate to 21% from 35% effective January 1, 2018. The Company's federal income tax expense for tax years beginning January 1, 2018 is based on the newly enacted 21% rate.

c. Income taxes for non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective countries of residence.

d. The income tax expense (benefit) for the years ended December 31, 2018, 2019 and 2020 consisted of the following:

	Year ended December 31,		
	2018	2019	2020
Current	\$ 3,350	\$ 2,734	\$ 2,641
Deferred	(6,601)	(258)	(23)
	<u>\$ (3,251)</u>	<u>\$ 2,476</u>	<u>\$ 2,618</u>
Domestic (Israel)	\$ (5,919)	\$ 781	\$ 839
Foreign	<u>2,668</u>	<u>1,695</u>	<u>1,779</u>
	<u>\$ (3,251)</u>	<u>\$ 2,476</u>	<u>\$ 2,618</u>



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15- TAXES ON INCOME (Cont.)

e. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	2019	2020
Deferred tax assets:		
Net operating loss carry forward	\$ 71,653	\$ 75,926
Temporary differences mainly relating to Research and Development, reserves and allowances	25,773	28,429
Deferred tax asset before valuation allowance	97,426	104,355
Valuation allowance	(89,320)	(96,076)
Deferred tax asset, net	\$ 8,106	\$ 8,279

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realized in each tax jurisdiction. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible and net operating losses are utilized. Based on consideration of these factors, the Company recorded valuation allowance amounting \$89,320 and \$96,076 as of December 31, 2019 and 2020 respectively.

f. Net operating loss carry forward and capital loss:

As of December 31, 2020, the Company has accumulated net operating losses and capital loss for Israeli income tax purposes in the amount of approximately \$ 188,435 and \$ 8,298, respectively. The net operating losses and capital loss may be carried forward and offset against taxable income in the future for an indefinite period.

As of December 31, 2020, the Company's Norwegian subsidiary had a net operating loss carry forward of approximately \$ 20,116 that can be carried forward. The net operating losses may be carried forward and offset against taxable income in the future for an indefinite period.

As of December 31, 2020 the Company's Brazilian subsidiary had a net operating loss carryforward of approximately \$ 34,040 that can be carried forward. The net operating losses may be carried forward and offset against taxable income in the future for an indefinite period. The offset is limited to a maximum 30% of the annual taxable income.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

g. Income (Loss) before taxes is comprised as follows:

	Year ended December 31,		
	2018	2019	2020
Domestic	\$ 17,921	\$ (2,171)	\$ (24,192)
Foreign	1,874	2,952	10,697
	<u>\$ 19,795</u>	<u>\$ 781</u>	<u>\$ (13,495)</u>

h. Reconciliation of the theoretical tax expense to the actual tax expense:

Reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company and the actual tax expense as reported in the statements of operations is as follows:

	Year ended December 31,		
	2018	2019	2020
Income (loss) before taxes as reported in the consolidated statements of operations	<u>\$ 19,795</u>	<u>\$ 781</u>	<u>\$ (13,495)</u>
Statutory tax rate	23%	23%	23%
Theoretical tax expenses (income) on the above amount at the Israeli statutory tax rate	\$ 4,553	\$ 180	\$ (3,104)
Non-deductible expenses	1,299	519	(111)
Non-deductible expenses related to employee stock options	376	472	383
Changes in tax rate	179	(5)	-
Losses and other temporary differences in respect of which no deferred taxes were generated (including changes in valuation allowance)	(4,068)	977	5,318
Recognition of deferred taxes during the year, for which valuation allowance was provided in prior years	(7,200)	-	-
Other	1,610	333	132
Actual tax expense (benefit)	<u>\$ (3,251)</u>	<u>\$ 2,476</u>	<u>\$ 2,618</u>



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

i. A reconciliation of the beginning and ending balances of unrecognized tax benefits related to uncertain tax positions is as follows:

	December 31,	
	2019	2020
Beginning balance	\$ 2,373	\$ 2,492
Decreases in tax positions for prior years	(406)	(708)
Increases related to tax positions taken during prior years	40	184
Increase related to tax positions taken during the current year	485	453
Ending balance	\$ 2,492	\$ 2,421

The Company has further accrued \$ 134 due to interest and penalty related to uncertain tax positions as of December 31, 2020.

NOTE 16:- REVENUES

The Company recognizes contract liabilities, or deferred revenues, when it receives advance payments from customers before performance obligations have been performed. The balance of deferred revenues approximates the aggregate amount of the transaction price allocated to the unsatisfied performance obligations at the end of reporting period.

The following table presents the significant changes in the deferred revenue balance during the year ended December 31, 2020:

	Year ended	Year ended
	December 31, 2019	December 31, 2020
Balance, beginning of the period	\$ 3,873	\$ 7,999
New performance obligations	11,195	5,210
Reclassification to revenue as a result of satisfying performance obligations	(7,069)	(2,222)
Balance, end of the period	7,999	10,987
Less: long-term portion of deferred revenue	6,265	7,495
Current portion, end of period	\$ 1,734	\$ 3,492



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- REVENUES (Cont.)

Remaining performance obligations represent contracted revenues that have not yet been recognized, which includes deferred revenues and non-cancelable contracts that will be recognized as revenue in future periods. The following table represents the remaining performance obligations as of December 31, 2020, which are expected to be satisfied and recognized in future periods:

	2021	2022	2023 and thereafter
Unsatisfied performance obligations	\$ 4,320	\$ 216	\$ 8,129

The Company elected to apply the optional exemption under ASC 606 paragraph 10-50-14(a) not to disclose the remaining performance obligations that relate to contracts with an original expected duration of one year or less for which deferred revenues have not been recorded yet.

NOTE 17:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION

- a. The Company applies ASC topic 280, "Segment Reporting", ("ASC 820"). The Company operates in one reportable segment (see Note 1a for a brief description of the Company's business). The total revenues are attributed to geographic areas based on the location of the end customer.
- b. The following tables present total revenues for the years ended December 31, 2018, 2019 and 2020 and long-lived assets as of December 31, 2019 and 2020:

	Year ended December 31,		
	2018	2019	2020
Revenues:			
North America	\$ 41,384	\$ 42,474	\$ 38,165
Europe	38,919	42,439	44,832
Africa	23,690	25,614	23,497
Asia-Pacific and Middle East	47,320	53,948	47,677
India	131,201	49,748	62,047
Latin America	61,360	71,360	46,663
	<u>\$ 343,874</u>	<u>\$ 285,583</u>	<u>\$ 262,881</u>

Property and equipment, net:

	December 31,	
	2019	2020
Israel	\$ 29,165	\$ 26,423
Others	5,700	5,325
	<u>\$ 34,865</u>	<u>\$ 31,748</u>



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 17:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

- c. Major customer data as a percentage of total revenues:

In 2020, the company had revenues from a single customer that represent group of affiliated companies equaling 22.1% of total revenues. In 2019 the Company had revenues from two customers that represents two groups of affiliated companies equaling 14.0% and 11.8% of total revenues. In 2018, the Company had revenues from a single customer that accounted for approximately 21.1% and from a customer that represents group of affiliated companies equaling 19.6% of total revenues.

NOTE 18:- SELECTED STATEMENTS OF OPERATIONS DATA

- a. Financial expenses and others, net:

	Year ended December 31,		
	2018	2019	2020
Financial income:			
Interest on deposits	\$ 111	\$ 111	\$ 79
Foreign currency translation differences and derivatives (*)	3,981	190	1,330
Others	-	-	807
	<u>4,092</u>	<u>301</u>	<u>2,216</u>
Financial expenses:			
Bank charges and interest on loans	(4,597)	(3,787)	(4,130)
Foreign currency translation differences and derivatives	(5,844)	(2,627)	(3,716)
Others	-	(408)	(293)
	<u>(10,441)</u>	<u>(6,822)</u>	<u>(8,139)</u>
	<u>\$ (6,349)</u>	<u>\$ (6,521)</u>	<u>\$ (5,923)</u>

(*) During 2018 the Company recorded \$ 969 income upon collection of trade receivables balances from customer in Venezuela at a rate which was higher than the rate it could collect these receivables previously.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 18:- SELECTED STATEMENTS OF OPERATIONS DATA (Cont.)

b. Net income (loss) per share:

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

	Year ended December 31,		
	2018	2019	2020
Numerator:			
Numerator for basic and diluted net income (loss) per share - income (loss) available to shareholders of Ordinary shares	\$ 23,046	\$ (2,344)	\$ (17,092)
Denominator:			
Denominator for basic net income (loss) per share - weighted average number of Ordinary shares	78,579,013	80,296,581	81,149,687
Effect of dilutive securities:			
Employee stock options and RSU	2,442,514	-	-
Denominator for diluted net income (loss) per share - adjusted weighted average number of shares	\$ 81,021,527	\$ 80,296,581	\$ 81,149,687

NOTE 19:- RELATED PARTY BALANCES AND TRANSACTIONS

- a. Related party balances and transactions are with related companies and principal shareholder. Yehuda Zisapel is a shareholder of the Company. Zohar Zisapel is the Chairman of the Board of Directors of the Company and also a principal shareholder of the Company. Yehuda and Zohar Zisapel are brothers who do not have a voting agreement between them. Jointly or severally, they are also founders, directors and principal shareholders of several other companies that are known as the RAD-BYNET group.

Members of the RAD-BYNET group provide the Company on an as-needed basis with information systems infrastructure, administrative services, medical insurance, as well as in connection with logistics services, the Company reimburses each company for its costs in providing these services. The aggregate amount of these expenses was approximately \$ 1,856, \$ 2,242 and \$ 1,801 in 2018, 2019 and 2020, respectively.

The Company leases its offices in Israel from real estate holding companies controlled by Yehuda and Zohar Zisapel. The leases of this facility will expire end of March 2021.

The aggregate amount of rent and maintenance expenses related to these properties were approximately \$ 1,960, \$ 1,936 and \$ 2,099 in 2018, 2019 and 2020, respectively.



CERAGON NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 19:- RELATED PARTY BALANCES AND TRANSACTIONS (Cont.)

The Company has an OEM arrangement with RADWIN, a member of RAD-BYNET group, according to which the Company purchases RADWIN products that are then resold to the Company's customers. In addition, the Company purchases certain inventory components from other members of the RAD-BYNET group, which are integrated into its products. The aggregate purchase price of these components was approximately \$ 78, \$ 152 and \$ 83 for the years ended December 31, 2018, 2019 and 2020, respectively.

The Company purchases certain property and equipment from members of the RAD-BYNET group, the aggregate purchase price of these assets was approximately \$ 148, \$ 46 and \$ 274 for the years ended December 31, 2018, 2019 and 2020, respectively.

- b. As part of the operating agreements with Orocom for the Pronatel project in Peru, the Company had two seats in Orocom's board of directors out of four seats, as well as other protective rights in Orocom. As a result, Orocom and its shareholders were defined as "related companies" of Ceragon. During 2020, the Company recorded revenues in the amount of \$ 5,594 related to Pronatel project. During 2018 and 2019, Amitel Peru Telecomunicaciones S.A.C. ("Amitel") - one of Orocom's shareholders and a partner in the Pronatel project - won a tender of Ceragon for the provision of site surveys services as well as installation and commissioning services under framework agreements in the sum of approximately \$ 490 and \$ 900 respectively. Following the return of the guarantees, Company's seats in Orocom's board of directors were reduced to one seat and Company's other protective rights in Orocom were revoked.

In December 2018, the Company purchased 14% of the share capital of Compass for a consideration of \$ 833. In December 2019, the holding was decreased to 11% as a result of third-party equity investment. As of December 31, 2020, the investment was fully written off as a result of equity losses.

Transactions with related parties:

	Year ended December 31,		
	2018	2019	2020
Revenues	\$ 3,336	\$ 6,745	\$ 5,843
Cost of revenues	\$ 1,111	\$ 1,659	\$ 4,715
Research and development expenses	\$ 1,008	\$ 1,248	\$ 1,245
Selling and marketing expenses	\$ 771	\$ 763	\$ 731
General and administrative expenses	\$ 1,067	\$ 1,002	\$ 913
Purchase of property and equipment	\$ 148	\$ 46	\$ 274

Balances with related parties:

	December 31,	
	2019	2020
Trade payables, other accounts payable and accrued expenses	\$ 1,148	\$ 925
Trade Receivables	\$ 7,378	\$ 13,117



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Ceragon America Latina Ltda.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheet of Ceragon America Latina Ltda. and its subsidiary (the "Company") as of December 31, 2018, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended December 31, 2018 and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 31, 2019 expressed an unqualified opinion thereon.

The financial statements of the Company as of December 31, 2017 were audited by other auditors who did not issue a separate opinion on those financial statements.

Basis for opinion


These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Mazars Auditores Independentes S.S.

We have served as the Company's auditor since 2018.

São Paulo, SP
March 31, 2019

 M A Z A R S



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Ceragon America Latina Ltda.

Opinion on the internal control over financial reporting

We have audited Ceragon America Latina Ltda.'s and its subsidiary (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet as of December 31, 2018 and the related statements of income, comprehensive income, stockholders' equity, and cash flows of the Company for the year then ended, and our report dated March 31, 2019, expressed an unqualified opinion thereon.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.


Definition and limitations of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Mazars Auditores Independentes S.S.

São Paulo, SP
March 31, 2019

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