



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

Enheten

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

Regnskapsår

Årsregnskapets periode: 01.01.2021 - 31.12.2021

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: 30.06.2022

Grunnlag for avgivelse

År 2021: Årsregnskapet er elektronisk innlevert
År 2020: Tall er hentet fra elektronisk innlevert årsregnskap fra 2021

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, 16.01.2024



Resultatregnskap

Beløp i: NOK	Note	2021	2020
RESULTATREGNSKAP			
Inntekter			
Sales revenues	2	33 371 000	55 148 000
Sum inntekter		33 371 000	55 148 000
Kostnader			
Cost of goods sold		29 286 000	16 653 000
Payroll and related costs	3	22 874 000	20 648 000
Depreciation	4	419 000	327 000
Other operating expenses		-20 041 000	16 080 000
Sum kostnader		32 538 000	53 708 000
Driftsresultat		833 000	1 440 000
Finansinntekter og finanskostnader			
Other financial income	9	3 771 000	1 134 000
Sum finansinntekter		3 771 000	1 134 000
Other financial expenses	9	217 000	7 814 000
Sum finanskostnader		217 000	7 814 000
Netto finans		3 554 000	-6 680 000
Ordinært resultat før skattekostnad			
Income tax expense	8	71 000	7 000
Ordinært resultat etter skattekostnad		4 316 000	-5 247 000
Årsresultat		4 316 000	-5 247 000
Overføringer og disponeringer			
Transfer to accumulated other equity		-4 316 000	5 247 000
Sum overføringer og disponeringer		-4 316 000	5 247 000



Balanse

Beløp i: NOK	Note	2021	2020
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Sum immaterielle eiendeler		0	
Varige driftsmidler			
Machinery and plant etc	4	1 637 000	1 281 000
Sum varige driftsmidler		1 637 000	1 281 000
Finansielle anleggsmidler			
Investering i datterselskap	12	74 893 000	74 893 000
Lån til foretak i samme konsern		41 996 000	47 431 000
Sum finansielle anleggsmidler		116 889 000	122 324 000
Sum anleggsmidler		118 526 000	123 605 000
Omløpsmidler			
Varer			
Inventories	16	2 358 000	3 289 000
Sum varer		2 358 000	3 289 000
Fordringer			
Accounts receivable	10	118 921 000	115 791 000
Other short-term receivables	11	6 253 000	5 598 000
Sum fordringer		125 174 000	121 389 000
Bankinnskudd, kontanter og lignende			
Cash and cash equivalents	7	7 732 000	8 755 000
Sum bankinnskudd, kontanter og lignende		7 732 000	8 755 000
Sum omløpsmidler		135 264 000	133 433 000
SUM EIENDELER		253 790 000	257 038 000

BALANSE - EGENKAPITAL OG GJELD



Balanse

Beløp i: NOK	Note	2021	2020
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	259 442 000	263 758 000
Sum opptjent egenkapital		-259 442 000	-263 758 000
Sum egenkapital		207 330 000	203 014 000
Gjeld			
Langsiktig gjeld			
Pensjonsforpliktelser	13	20 707 000	21 424 000
Sum avsetninger for forpliktelser		20 707 000	21 424 000
Annen langsiktig gjeld			
Sum langsiktig gjeld		20 707 000	21 424 000
Kortsiktig gjeld			
Leverandørgjeld		14 456 000	24 463 000
Other current liabilities	14	7 588 000	5 639 000
Advances from customer/processing contracts		3 709 000	2 498 000
Sum kortsiktig gjeld		25 753 000	32 600 000
Sum gjeld		46 460 000	54 024 000
SUM EGENKAPITAL OG GJELD		253 790 000	257 038 000



Brønnøysundregistrene

ÅRSREGNSKAP FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

Journalnummer: 2022 641966

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Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Thomas Ornevik
Dato for fastsettelse av årsregnskapet: 30.06.2022

Revisjon

Ekstern autorisert regnskapsfører har i løpet av regnskapsåret bistått ved den løpende regnskapsføringen eller utført andre tjenester for selskapet enn å utarbeide årsregnskapet: Ja

Grunnlag for avgivelse

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Brønnøysundregistrene, 18.07.2022

Brønnøysundregistrene
Postadresse: Postboks 900, 8910 Brønnøysund
Telefon: 75 00 75 00
E-post: firmapost@brreg.no Internett: www.brreg.no
Organisasjonsnummer: 974 760 673



Organisasjonsnr: 979 582 242
CERAGON NETWORKS AS

RESULTATREGNSKAP

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CERAGON NETWORKS AS

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Organisasjonsnr: 979 582 242
CERAGON NETWORKS AS

NOTEOPPLYSNINGER - SELSKAP - alle poster oppgitt i hele tall

Note
1

Regnskapsprinsipper

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

Note
1, 15

Antall aksjer og aksjeeiere

<u>Aksjeklasse</u>	<u>Ant. aksjer</u>	<u>Pålydende</u>	<u>Bokført verdi</u>
Ordinære aksjer	5000000.00	18.00	90000000.00
<u>Aksjeeiere - fritekst</u>	<u>Antall</u>	<u>Eierandel</u>	<u>Aksjeklasse</u>
Ceragon Networks Ltd.	5000000.00	100.00%	
<u>Sum</u>	<u>Sum antall</u>	<u>Sum eierandel</u>	
	5000000.00	100.00%	

The share capital in Ceragon Networks AS per 31.12.21 consists of one share class with in total 5 000 000 shares with nominal value NOK 18 per share. Total share capital per 31.12.21 is NOK 90 000 000. Each share has the same rights. The company is per 31.12.2021 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

Antall årsverk i regnskapsåret

Virksomheten har hatt følgende antall årsverk:
0.00

Note

Lån og sikkerhetsstillelse til ledende personer og aksjeeiere

Er det gitt lån eller sikkerhetsstillelse til ledende personer: Nei

Note



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Annual Report 2021 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 2021 Ceragon Group accounts were issued on 2nd May 2022.

Analysis of the Financial Statements

Total revenues of Ceragon Networks AS for the fiscal year 2021 amounted to 33M NOK compared to 55M NOK in 2020.

Cost of goods was 29M NOK compared to 17M NOK in 2020. Wage expenses were 23M NOK compared to 21M NOK in 2020.

The company's depreciation was 0.4M NOK in 2021 compared to 0.3M NOK in 2020.

Total operating expenses for the fiscal year 2021 were 33M NOK compared to 54M NOK in 2020.

Ordinary operating profit before financial items in 2021 amounted to 0.8M NOK compared to 1.4M NOK in 2020.

Net financial and other expenses (income) in 2021 amounted to 3.6M NOK income compared to expense of 6.7M NOK in 2020.

Taxes on income was 0.07M NOK in 2021 compared to 0 M NOK in 2020.

Net profit for 2021 was 4M NOK compared to net loss of 5M NOK in 2020.

Balance sheet and cash flow

As of December 31, 2021, Receivables amounted to 125M NOK.

Current assets amounted to 135M NOK.

Net cash flow used in operating activities amounted to 6M NOK.

Net cash flow used in investment activities amounted to 0.8M NOK

Net cash flow from financing activities amounted to 5M NOK



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Net change in cash and cash equivalents were 1M NOK in 2021. The equity ratio per December 31, 2021 was 82%.

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.

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 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



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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 lock-down 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;
- 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;



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- 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 254M NOK. The company's equity as of December 31, 2021 was 207M NOK.

Working environment and personnel

Sick leave was 0.45% in 2021 compared to 1.93% in 2020. In 2021 there have not been any incidents of work-related illness. There was 1 industrial injury reported in 2021.

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 2021 the proportion of women was 24.6%. The average salary for woman was 69.0% 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 the war in Ukraine contributed to an upswing in Oil prices. Which means that there is a greater appetite for new investments in the Energy verticals. Which make the outlook for 2022 is looking promising. Also, the business has made some adjustments and introduced a New business model for Connectivity as a Service to address the renewed interest in exploration campaigns that are normally a shorter time span.

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 lead to financial difficulties in this industry. The predictions are that as countries comes out of lock-down, this would gradually increase the numbers of passengers for the ferries in 2022 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

Ceragon 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 2021 was a profit of 4M NOK which is proposed allocated as follows:

Transferred from other equity	4M NOK
Total allocated	4M NOK

Bergen, 22nd June 2022

The Board of Directors, Ceragon Network AS

<p>DocuSigned by: <i>Doron Arazi</i> 9FAFA315039740B...</p>	<p>DocuSigned by: <i>Tehila Oz</i> 4854FFF47C6E405...</p>	<p>DocuSigned by: <i>Thomas Lars Ornevik</i> 89CFEB568E754EF...</p>	<p>DocuSigned by: <i>Yngvil Ellingsen Dahl</i> 04F1C97F41484F7...</p>
Doron Arazi	Ran Vered	Thomas Lars Ornevik	Yngvil Ellingsen Dahl
Chairman of the Board	Board Member	Board Member/General manager	Board Member



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Ceragon Networks AS

Financial statements 01.01 - 31.12

	Note	2021	2020
Operating income and operating expenses			
Revenue	2	33 371	55 148
Total operating income		33 371	55 148
Cost of goods			
Cost of goods		29 286	16 653
Personnel expenses	3	22 874	20 648
Depreciations	4	419	327
Other operating expenses (income)		-20 041	16 080
Total operating expenses		32 538	53 708
Operating profit		833	1 440
Financial and other expenses			
Financial income	9	-3 771	-1 134
Financial expenses	9	217	7 814
Net financial and other expenses (income)		-3 554	6 680
Operating result before tax		4 387	-5 240
Tax income on ordinary result	8	71	7
Ordinary result after tax		4 316	-5 247
Annual net profit (loss)		4 316	-5 247
Brought forward			
Transferred from other equity		4 316	-5 247
Net brought forward		4 316	-5 247



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Ceragon Networks AS

Balance sheet pr 31.12

Assets	Note	2021	2020
Fixed assets			
Tangible assets			
Property, plants and equipment	4	1 637	1 281
Total tangible assets		1 637	1 281
Financial fixed assets			
Investments in subsidiaries	12	74 893	74 893
Loan to group companies		41 996	47 431
Total financial fixed assets		116 889	122 324
Total fixed assets		118 526	123 605
Current assets			
Inventories	16	2 358	3 289
Debtors			
Accounts receivables	10	118 921	115 791
Other short-term receivables	11	6 253	5 597
Total receivables		125 174	121 388
Cash and bank deposits	7	7 732	8 755
Total current assets		135 264	133 432
Total assets		253 790	257 038



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Ceragon Networks AS

Balance sheet pr 31.12

Equity and liabilities	Note	2021	2020
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	-259 442	-263 758
Total retained earnings		-259 442	-263 758
Total equity		207 330	203 014
Liabilities			
Provisions for liabilities			
Pension liabilities	13	20 707	21 424
Total provisions		20 707	21 424
Current debt			
Trade creditors		14 456	24 463
Advances from customer/processing contracts		3 709	2 498
Other current debt	14	7 588	5 639
Total current debt		25 753	32 600
Total liabilities		46 460	54 024
Total equity and liabilities		253 790	257 038

Place/ Date: Bergen, _____, 22.06.2022

The board of Ceragon Networks AS

DocuSigned by:

Yngvil Ellingsen Dahl

04E1CB7F41484E7...

Yngvil Ellingsen Dahl
member of the board

DocuSigned by:

Thomas Lars Ornevik

898FED568E764EF...

Thomas Lars Ornevik
member of the board/General Manager

DocuSigned by:

Tehila Oz

4864FFFA72C8F40E...

Ran Vered P.P. Tehila OZ
member of the board

DocuSigned by:

Doron Arazi

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Doron Arazi
chairman of the board



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Indirect cash flow

Ceragon Networks AS

	Note	2021	2020
Cash flows from operating activities			
Profit/loss before tax		4 387	-5 240
Ordinary depreciation		419	327
Change in inventory		931	-1 233
Change in accounts receivable		-3 130	73 338
Change in accounts payable		-8 796	-19 701
Change in other accrual items		506	-1 459
Net cash flows from (used) in operating activities		-5 683	46 032
Cash flows from investment activities			
Proceeds (Purchase) of fixed assets		-775	-703
Net cash flows used in investment activities		-775	-703
Cash flows from financing activities			
Loan to inter-group company		5 435	-47 431
Net cash flow from (used in) financing activities		5 435	-47 431
Net change in cash and cash equivalents		-1 023	-2 102
Cash and cash equivalents at the start of the period		8 755	10 857
Cash and cash equivalents at the end of the period		7 732	8 754



NOTES TO THE FINANCIAL STATEMENTS 2021

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 01.01.2021	90,000	376,772	-263,758	203,014
Annual result	0	0	4,316	4,316
Equity 31.12.2021	90,000	376,772	-259,442	207,330

Note 2 - Revenues per market area

(Amounts in 1 000 NOK)	2021	2021	2020	2020
Norway	18,339	55.0 %	22,903	41.5 %
Rest of Europe	7,289	21.8 %	15,839	28.7 %
America	6,976	20.9 %	5,535	10.0 %
Africa	616	1.8 %	23	0.0 %
Asia/Oceania	151	0.5 %	10,849	19.7 %
Total	33,371	100.0 %	55,148	100.0 %

(Amounts in 1 000 NOK)	2021	2021	2020	2020
External sales	31,768	95.2 %	43,534	78.9 %
Internal sales	1,602	4.8 %	11,614	21.1 %
Total	33,371	100.0 %	55,148	100.0 %

Note 3 - Wage costs,

(Amounts in 1 000 NOK)	2021	2020
Wages and holiday allowance	17,041	15,847
Other remuneration etc	2,475	957
Social costs	2,596	3,258
Pension costs	762	587
Total	22,874	20,648

Number of man-years 24.6 24.7

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

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
01.01.2021		56,295
Granted	3.75	18,939
Forfeited	0.00	0
Cancelled	4.76	-3,000
Expired	11.54	-4,000
Exercised	3.37	-9,245
31.12.2021		58,989



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

Expiry	Average exercise price	No. of options
1.6.2022	9.01	5,000
1.6.2023	3.19	9,875
1.9.2024	3.56	7,200
6.10.2025	2.54	9,375
13.9.2026	2.42	8,600
10.8.2027	3.75	18,939
Sum		58,989

Wages, pension premium and other remuneration to managing director and board of directors 2021:

(amounts in 1 000 NOK)	Wages/bonus	Pension premium	Other remuneration
Managing director, Thomas Ornevik	1,626	210	132

No loan/security have been granted to managing director, chairman of the board or other related parties.
Managing director has 24 075 share options outstanding as of 31.12.2021 at an average exercise price of USD 3.11.

Note 4 - Property, Plant and Equipment

(amounts in 1 000 NOK)	Machinery and plants	Fixtures and fittings	TOTAL
Acquisition cost 01.01.21	22,072	134	22,206
Additions	775	0	775
Disposal and translation differences 2020		0	0
Acquisition cost 31.12.21	22,847	134	22,981
Accumulated depreciations 01.01.21	20,791	134	20,925
Depreciations for the year	419	0	419
Disposal and translation differences 2021		0	0
Accumulated depreciations 31.12.2021	21,210	134	21,344
Book value 31.12.2021	1,637	0	1,637
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)	2021	2020
Buildings	1,115	1,505
Total	1,115	1,505



Note 6 - Intangible assets

(amounts in 1 000 NOK)

Intangible assets per 31.12.2020:

	IT-software	TOTAL
Acquisition cost 01.01.2021	10,534	10,534
Additions 2021	0	0
Disposal 2021	0	0
Acquisition cost 31.12.2021	10,534	10,534

Accumulated depreciations/write-down 01.01.2021	10,534	10,534
Depreciations for the year	0	0
Disposal 2021	0	0
Impairment for the year	0	0
Accumulated depreciations/impairment per 31.12.2021	10,534	10,534

Book value 31.12.2021	0	0
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Depreciation period 3 - 10 years

Note 7 - Cash and cash equivalents

Per 31.12.2021 the company's liquid assets comprise cash and bank deposits, in total TNOK 7,732

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

Liability for employees' tax deduction owing per 31.12.2021 is secured by a bank guarantee with nominal value TNOK 1.400

(amounts in 1 000 NOK)	2021	2020
Net value bank and cash	7,732	8,755
Value of bank deposit in the balance sheet per 31.12	7,732	8,755



Note 8 - Taxes

(amounts in 1 000 NOK)

Temporary differences:	12/31/2021	12/31/2020	Change
Property, plant and equipment and intangible assets	-11,778	-14,236	-2,458
Inventories	-1,336	-1,308	28
Receivables DD	-426,914	-467,624	-40,710
Pensions	-22,161	-21,424	738
Total temporary differences	-462,191	-504,593	-42,402
Carry forward loss	-218,703	-180,690	38,014
Total basis for deferred tax assets	-680,893	-685,281	-4,388
Deferred tax assets	-149,796	-150,762	965
Deferred tax asset not recognized in the balance sheet	149,796	150,762	965
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:	2021	2020
Result before tax expense	4,388	-5,240
Net permanent differences	0	0
Change in temporary differences	-42,402	-4,822
Taxform this year	-38,014	-10,061
Application of loss carry forward from previous years	0	0
Tax related result	0	0

Tax expense:	2021	2020
*Payable tax	71	7
Tax expenses	71	7

* Relates to a tax provision not applicable to Norway.

Reconciliation of tax expense	2021	2020
Operating results before tax	4,388	-5,240
Calculated tax	965	-1,153
*Booked tax expense	71	7
Change in deferred tax not recognized in the balance sheet	965	-1,153
Other provision	-71	-7
Change in tax expense	894	-1.160

**Note 9 - Finance items**

Financial income and financial expenses comprise the following elements:

(amounts in 1 000 NOK)	2021	2020
Gain on exchange	-1,814	
Interest income	-1,957	-1,134
Total financial income	-3,771	-1,134
(amounts in 1 000 NOK)	2021	2020
Interest expenses	217	31
Loss (income) on exchange	0	7,783
Total financial expenses	217	7,814
Net financial expense/(income)	-3,554	6,680

Note 10 - Accounts receivables

(amounts in 1 000 NOK)	2021	2020
External trade receivables, nominal value	92,559	138,808
Internal trade receivables, nominal value	505,471	488,709
Provision for doubtful debts	-479,110	-511,726
Trade receivables	118,921	115,791

Note 11 - Other receivables

(amounts in 1 000 NOK)	2021	2020
Other receivables per 31.12.:		
Pre-paid external expenses	933	591
Vat owing (Norway)	4,221	3,811
Other short-term receivables	1,099	1,195
Value in balance sheet other short-term receivables	6,253	5,597

Note 12 - Investment in subsidiaries

Shares in subsidiaries per 31.12.2021

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 telecomunicacione	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:	2021	2020
Interest cost	309	402
Pension costs defined benefit scheme exclusive of payroll tax	309	402
Payroll tax	44	57
Pension costs defined benefit scheme	352	459
Total pension cost	352	459

(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	19,424	19,424
Net calculated liability	0	19,424	19,424
Total	0	19,424	19,424
Accrued payroll tax	0	2,739	2,739
Net pension liability 31.12.2021	0	22,161	22,161

(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	19,424	19,424
Net calculated liability	0	19,424	19,424
Total	0	19,424	19,424
Accrued payroll tax	0	2,739	2,739
Net pension liability 31.12.2021	0	22,161	22,161

Number of persons comprised by the defined benefit scheme per 31.12.2021 and 31.12.2020: 27 27

Connection between pension liability 31.12.2020 and 31.12.2021 (defined benefit scheme):

(amounts in 1 000 NOK)	
Pension liability 31.12.2020	21,423
Pension cost 2021	2,019
Paid from operations etc.	-1,281
Estimate change recognized in equity	
Pension liability 31.12.2021	22,161

ACTUARIAL ASSUMPTIONS:	12/31/2021	12/31/2020
Return on plan assets	3.10%	2.70%
Discount rate	1.90%	1.70%
Future salary increases	2.75%	2.25%
Annual G-regulation	2.50%	2.00%
Annual regulation of pensions in payment	2.50%	2.00%
Inflation	1.75%	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:	2021	2020
Provision for holiday pay, wages etc.	1,861	1,505
Other provisions/accruals	5,727	4,134
Total external, other short-term liabilities	7,588	5,639

Note 15 - Share capital and shareholders

The share capital in Ceragon Networks AS per 31.12.2021 consists of one share class with in total 5 000 000 shares with nominal value NOK 18 per share. Total share capital per 31.12.2021 is NOK 90 000 000. Each share has the same rights. The company is per 31.12.2021 100% owned by Ceragon (UK) Limited, who is 100% owned by Ceragon Networks Ltd. Ceragon Networks Ltd has its main office in Rosh Haayin in Israel.

Note 16 - Inventories

(amounts in 1 000 NOK)

Balance sheet value of inventories per 31.12. :	2021	2020
Manufactured goods	2,358	3,289
Total balance sheet value 31.12.	2,358	3,289

Note 17 - Transactions with related parties

	2021	2020
Sale to Group Companies	-1,602	-14,375
Purchase from Group Companies (COGS)	14,768	0



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



Statsautoriserte revisorer
Ernst & Young AS

Thormøhlens gate 53 D, 5006 Bergen
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www.ey.no
Medlemmer av Den norske Revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Ceragon Networks AS

Opinion

We have audited the financial statements of Ceragon Networks AS (the Company), which comprise the balance sheet as at 31 December 2021, the income statement and statement 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 comply with applicable legal requirements and give a true and fair view of the financial position of the Company as at 31 December 2021 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 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 requirements of the relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities 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 annual report other than the financial statements and our auditor's report thereon. Management (the board of directors and Chief Executive Officer) is responsible for the other information. Our opinion on 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 board of directors' report contains the information required by legal requirements and 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 or that the information required by legal requirements is not included, we are required to report that fact.

We have nothing to report in this regard, and in our opinion, the board of directors' report is consistent with the financial statements and contains the information required by applicable legal requirements.

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



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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 includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 the board of directors 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.

Bergen, 30 June 2022
ERNST & YOUNG AS

The auditor's report is signed electronically

Truls Nesslin
State Authorised Public Accountant (Norway)

Independent auditor's report - Ceragon Networks AS 2021

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

Truls Nesslin

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CERAGON NETWORKS LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2021

IN U.S. DOLLARS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the 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 subsidiaries (the "Company") as of December 31, 2020 and 2021, and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, 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, 2020 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

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, 2021, 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 May 2, 2022 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 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 the critical audit matter 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 accounts or disclosures to which it relates.

Inventory valuation

Description of the Matter The Company's inventories totaled \$61.4 million as of December 31, 2021. 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
May 2, 2022



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. and subsidiaries' internal control over financial reporting as of December 31, 2021, 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, Ceragon Networks Ltd. and subsidiaries' (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, 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 2021, and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021 and the related notes and our report dated May 2, 2022 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.



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

May 2, 2022



CERAGON NETWORKS LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	Note	December 31,	
		2020	2021
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		\$ 27,101	\$ 17,079
Trade receivables (net of allowance for credit losses of \$6,189 and \$7,470 at December 31, 2020 and 2021, respectively)	10	107,388	107,826
Other accounts receivable and prepaid expenses	3	14,755	17,179
Inventories	4	50,627	61,398
Total current assets		199,871	203,482
NON-CURRENT ASSETS:			
Trade receivables (net of allowance for credit losses of \$ 0 and \$ 1,117 at December 31, 2020 and 2021, respectively)	10	-	10,484
Deferred tax assets	15d	8,279	-
Severance pay and pension fund		6,059	5,648
Operating lease right-of-use assets	13	6,780	20,233
Other non-current assets		13,565	17,059
PROPERTY AND EQUIPMENT, NET	5	31,748	29,383
INTANGIBLE ASSETS, NET	6	6,117	6,274
Total long-term assets		72,548	89,081
Total assets		\$ 272,419	\$ 292,563

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



CERAGON NETWORKS LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	Note	December 31,	
		2020	2021
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade payables		\$ 63,722	\$ 69,436
Deferred revenues	16	3,492	3,384
Short-term loans	8	5,979	14,800
Operating lease liabilities	13	3,183	4,359
Other accounts payable and accrued expenses	7	<u>24,048</u>	<u>23,704</u>
Total current liabilities		<u>100,424</u>	<u>115,683</u>
LONG-TERM LIABILITIES:			
Accrued severance pay and pensions		11,601	10,799
Deferred revenues	16	7,495	9,275
Operating lease liabilities	13	3,840	17,210
Other long-term payables		<u>2,933</u>	<u>2,445</u>
Total long-term liabilities		<u>25,869</u>	<u>39,729</u>
COMMITMENTS AND CONTINGENT LIABILITIES			
	12		
SHAREHOLDERS' EQUITY:			
	14		
Share capital -			
Ordinary shares of NIS 0.01 par value -			
Authorized: 120,000,000 shares at December 31, 2020 and 2021; Issued: 85,184,889 and 87,413,119 shares at			
December 31, 2020 and 2021, respectively; Outstanding: 81,703,366 and 83,931,596 shares at December 31, 2020			
and 2021, respectively		218	224
Additional paid-in capital		420,958	428,244
Treasury shares at cost - 3,481,523 ordinary shares at December 31, 2020 and 2021		(20,091)	(20,091)
Accumulated other comprehensive loss		(8,068)	(9,507)
Accumulated deficit		<u>(246,891)</u>	<u>(261,719)</u>
Total shareholders' equity		<u>146,126</u>	<u>137,151</u>
Total liabilities and shareholders' equity		<u>\$ 272,419</u>	<u>\$ 292,563</u>

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



CERAGON NETWORKS LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Note	Year ended December 31,		
		2019	2020	2021
Revenues	16	\$ 285,583	\$ 262,881	\$ 290,766
Cost of revenues		<u>188,741</u>	<u>187,236</u>	<u>202,389</u>
Gross profit		<u>96,842</u>	<u>75,645</u>	<u>88,377</u>
Operating expenses:				
Research and development, net		26,793	30,997	29,473
Sales and marketing		39,469	33,021	33,509
General and administrative		<u>23,278</u>	<u>19,199</u>	<u>20,589</u>
Total operating expenses		<u>89,540</u>	<u>83,217</u>	<u>83,571</u>
Operating income (loss)		7,302	(7,572)	4,806
Financial expenses and others, net	18	<u>6,521</u>	<u>5,923</u>	<u>8,623</u>
Income (loss) before taxes on income		781	(13,495)	(3,819)
Taxes on income	15c	2,476	2,618	11,009
Equity loss in affiliates		<u>649</u>	<u>979</u>	<u>-</u>
Net loss		<u>\$ (2,344)</u>	<u>\$ (17,092)</u>	<u>\$ (14,828)</u>
Net loss per share:				
Basic and diluted net loss per share		<u>\$ (0.03)</u>	<u>\$ (0.21)</u>	<u>\$ (0.18)</u>
Weighted average number of ordinary shares used in computing basic and diluted net loss per share		<u>80,296,581</u>	<u>81,149,687</u>	<u>83,414,831</u>

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



CERAGON NETWORKS LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

U.S. dollars in thousands

	Year ended December 31,		
	2019	2020	2021
Net loss	\$ (2,344)	\$ (17,092)	\$ (14,828)
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	(360)	(929)	(325)
Cash flow hedges:			
Change in net unrealized gains	1,797	1,752	346
Amounts reclassified into net loss	(895)	(225)	(1,460)
Net change	902	1,527	(1,114)
Other comprehensive income (loss), net	542	598	(1,439)
Total of comprehensive loss	\$ (1,802)	\$ (16,494)	\$ (16,267)

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

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CERAGON NETWORKS LTD. AND 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, 2019	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 income, 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
Exercise of options and vesting of RSU's	2,228,230	6	4,724	-	-	-	4,730
Share-based compensation expense	-	-	2,562	-	-	-	2,562
Other comprehensive loss, net	-	-	-	-	(1,439)	-	(1,439)
Net loss	-	-	-	-	-	(14,828)	(14,828)
Balance as of December 31, 2021	83,931,596	\$ 224	\$ 428,244	\$ (20,091)	\$ (9,507)	\$ (261,719)	\$ 137,151

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

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CERAGON NETWORKS LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2019	2020	2021
Cash flows from operating activities:			
Net loss	\$ (2,344)	\$ (17,092)	\$ (14,828)
Adjustments required to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	9,691	12,861	12,246
Loss from sale of property and equipment	-	-	82
Share-based compensation expense	2,053	1,662	2,562
Decrease (increase) in accrued severance pay and pensions, net	271	488	(418)
Decrease (increase) in trade receivables, net	4,533	9,345	(11,150)
Increase in other accounts receivable and prepaid expenses (including other long-term assets)	(2,086)	(6,661)	(6,976)
Decrease in operating lease right-of-use assets	5,348	5,121	5,713
Decrease (increase) in inventories	(9,475)	9,919	(11,908)
Increase (decrease) in trade payables	(15,933)	1,953	5,883
Increase in deferred revenues	4,150	2,988	1,672
Decrease (increase) in deferred tax assets, net	(258)	(173)	8,279
Decrease in operating lease liability	(5,114)	(5,112)	(4,620)
Increase (decrease) in other accounts payable and accrued expenses (including other long-term liabilities)	(3,767)	1,946	(1,556)
Net cash provided by (used in) operating activities	(12,931)	17,245	(15,019)
Cash flows from investing activities:			
Purchase of property and equipment	(11,592)	(6,077)	(9,383)
Proceeds from sale of property and equipment	-	-	200
Purchase of intangible assets	(3,274)	(412)	(212)
Proceeds from bank deposits	1,002	-	-
Net cash used in investing activities	(13,864)	(6,489)	(9,395)

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



CERAGON NETWORKS LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2019	2020	2021
<u>Cash flows from financing activities:</u>			
Proceeds from (repayment of) bank credits and loans, net	14,600	(8,621)	9,800
Proceeds from exercise of stock options	602	1,237	4,730
Net cash provided by (used in) financing activities	15,202	(7,384)	14,530
Translation adjustments on cash and cash equivalents	(49)	(210)	(138)
Increase (decrease) in cash and cash equivalents	(11,642)	3,162	(10,022)
Cash and cash equivalents at the beginning of the year	35,581	23,939	27,101
Cash and cash equivalents at the end of the year	\$ 23,939	\$ 27,101	\$ 17,079
<u>Supplemental disclosure of cash flow information:</u>			
Cash paid for income taxes	\$ 3,833	\$ 3,003	\$ 1,995
Cash paid for interest on bank loans	\$ 1,796	\$ 1,137	\$ 1,280

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



CERAGON NETWORKS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

Ceragon Networks Ltd. ("the Company") is a global innovator and leading solutions provider of wireless transport. The Company helps operators and other service providers worldwide increase operational efficiency and enhance end customers' quality of experience with innovative wireless backhaul and fronthaul solutions. The Company's unique multicore technology and disaggregated approach to wireless transport provides highly reliable, fast to deploy, high-capacity wireless transport for 5G and 4G networks with minimal use of spectrum, power, real estate, and labor resources. It enables increased productivity, as well as simple and quick network modernization. The Company delivers a complete portfolio of turnkey end-to-end AI-based managed and professional services that ensure efficient network rollout and optimization to achieve the highest value for its customers.

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.

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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.



CERAGON NETWORKS LTD. AND SUBSIDIARIES

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. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Long-term trade receivables:

Long-term trade receivables, with payment terms in excess of one year that are considered collectible, are recorded at their estimated present values.

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 2019, 2020 and 2021, 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 15d.

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 15h.



CERAGON NETWORKS LTD. AND SUBSIDIARIES

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.

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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 j 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, 2019, 2020 and 2021 in the amount of \$654, \$178 and \$(417) respectively. As of December 31, 2020 and 2021, the warranty provision was \$1,274 and \$1,691 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 2t). 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 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 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.

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CERAGON NETWORKS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As of December 31, 2020, and 2021, the Company sold trade receivables to several different financial institutions in a total net amount of \$21,993 and \$36,047, respectively. Control and risk of those trade receivables were fully transferred in accordance with ASC 860.

During the years ended on December 31, 2019, 2020 and 2021, the Company recorded amounts of \$506, \$575 and \$905, respectively, as financial expense related to its factoring arrangements.

i. 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 2020 and 2021, accrued severance pay amounted to \$9,282 and \$8,453 respectively. Severance expense for the years ended December 31, 2019, 2020 and 2021, amounted to approximately \$2,336, \$2,538 and \$1,906, 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 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 2019, 2020 and 2021:

	December 31,		
	2019	2020	2021
Dividend yield	0%	0%	0%
Volatility	53% - 65%	60% - 85%	66% - 87%
Risk free interest	1.2% - 2.7%	0.1% - 1.0%	0.1% - 1.3%
Early exercise multiple	1.3 - 2.3	1.5 - 1.6	1.55

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.



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.



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 shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

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, 2021	\$ 1,845	\$ (9,913)	\$ (8,068)
Other comprehensive income before reclassifications	346	(325)	21
Amounts reclassified from AOCI	(1,460)	-	(1,460)
Other comprehensive loss	(1,114)	(325)	(1,439)
Balance as of December 31, 2021	<u>\$ 731</u>	<u>\$ (10,238)</u>	<u>\$ (9,507)</u>

The effects on net loss of amounts reclassified from AOCI for the year ended December 31, 2021 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 3,473,312, 4,204,381 and 1,695,149 for the years ended December 31, 2019, 2020 and 2021, respectively.



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. Reclassifications:

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

z. Impact of recently issued Accounting Standards:

In November 2021, the FASB issued ASU 2021-10, ASC Topic 832 "Disclosures by Business Entities about Government Assistance". The standard require the following annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy: (1) Information about the nature of the transactions and the related accounting policy used to account for the transactions (2) The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item (3) Significant terms and conditions of the transactions, including commitments and contingencies. The standard will become effective for fiscal years beginning after December 15, 2021. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2020	2021
Government authorities	\$ 5,726	\$ 9,022
Deferred charges and prepaid expenses	5,743	6,214
Deposits receivable	504	279
Advances to suppliers	230	256
Hedging asset	1,937	852
Other	615	556
	<u>\$ 14,755</u>	<u>\$ 17,179</u>



CERAGON NETWORKS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4:- INVENTORIES

	December 31,	
	2020	2021
Raw materials	\$ 19,764	\$ 22,581
Work in progress	194	423
Finished products	<u>30,669</u>	<u>38,394</u>
	<u>\$ 50,627</u>	<u>\$ 61,398</u>

During the years ended December 31, 2019, 2020 and 2021, the Company recorded inventory write-offs for excess inventory and slow-moving inventory in a total amount of \$4,836, \$2,919 and \$1,907, respectively that have been included in cost of revenues.

As of December 31, 2021, the Company has an outstanding inventory purchase orders with its suppliers in the amount of \$63,859. The commitments are due primarily within one year.

NOTE 5:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2020	2021
Cost:		
Computers, manufacturing, peripheral equipment	\$ 125,097	\$ 133,465
Office furniture and equipment	1,959	2,341
Leasehold improvements	<u>1,564</u>	<u>1,460</u>
	<u>128,620</u>	<u>137,266</u>
Accumulated depreciation:		
Computers, manufacturing, peripheral equipment	94,294	105,300
Office furniture and equipment	1,500	1,578
Leasehold improvements	<u>1,078</u>	<u>1,005</u>
	<u>96,872</u>	<u>107,883</u>
Depreciated cost	<u>\$ 31,748</u>	<u>\$ 29,383</u>

Depreciation expenses for the years ended December 31, 2019, 2020 and 2021 were \$9,555, \$10,668 and \$11,845 respectively.

Changes of property and equipment not resulted in cash outflows as of December 31, 2019, 2020 and 2021 amounted to \$1,058, \$1,562 and \$1,058 respectively.



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,	
	2020	2021
Original amounts:		
Technology	\$ 3,767	\$ 4,325
Software development costs	2,879	2,879
	<u>6,646</u>	<u>7,204</u>
Accumulated amortization:		
Software development costs	529	930
Net amounts:		
Technology	3,767	4,325
Software development costs	2,350	1,949
Intangible assets, net	<u>\$ 6,117</u>	<u>\$ 6,274</u>

Technology includes mainly perpetual software licenses to be used in the Company's research and development activities. During 2021, the Company purchased \$558 technology, out of which \$350 was not resulted in cash flow outflows as of December 31, 2021. 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, 2019, 2020 and 2021 amounted to \$136, \$393 and \$401 respectively.

NOTE 7:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2020	2021
Employees and payroll accruals	\$ 12,617	\$ 11,799
Provision for warranty costs	1,274	1,691
Government authorities	1,612	2,223
Accrued expenses	2,879	2,403
Advanced payments from customers	4,351	5,044
Hedging Liability	281	313
Other	1,034	231
	<u>\$ 24,048</u>	<u>\$ 23,704</u>



CERAGON NETWORKS LTD. AND 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 2021, the Company signed the latest amendment to the agreement in the frame of which the Credit Facility was extended by additional 1 year, till June 30, 2022. Furthermore, an amendment signed earlier in 2021, includes an increase of \$20,000 to \$35,000 in the allowed factoring facility attributed to a certain customer, which puts the total allowed factoring facility of the Company on \$100,000. The bank guarantees credit lines of \$70,000 have remained unchanged. In addition, the Credit Facility for loans of \$50,000 has remained unchanged. In addition, the Company has \$5,000 credit facility from other financial institutions. The amendment also includes a change in the Credit Facility agreement related to the definition of tangible common equity (to exclude the long-term lease of the Company's offices from the tangible common equity).

As of December 31, 2021, the Company has utilized \$11,800 of the \$ 50,000 available under the Credit Facility for short term loans. In addition, as of December 31, 2021, the Company has utilized \$3,000 of the \$5,000 available credit facility from other financial institution. During 2021, the credit lines carry interest rates in the range of Libor+2.1% and Libor+2.5%.

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 its working capital and accounts receivable. As of December 31, 2020 and 2021, 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.

Foreign currency derivative contracts 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 SUBSIDIARIES

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, 2021 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	<u>90</u>	<u>279</u>
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, 2021</u>	
Derivatives designated as hedging instruments:		
Currency forward contracts	\$ 743	\$ (12)
Derivatives not designated as hedging instruments:		
Currency forward and option contracts	<u>109</u>	<u>(301)</u>
Total derivatives	<u>\$ 852</u>	<u>\$ (313)</u>

The notional amounts for derivatives contracts were as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2021</u>
Derivatives designated as hedging instruments:		
Currency forward contracts	\$ 35,089	\$ 41,832
Derivatives not designated as hedging instruments:		
Currency forward and option contracts	<u>\$ 31,207</u>	<u>\$ 34,304</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.



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, 2020 and 2021 was as follows:

	Year ended December 31,	
	2020	2021
Operating income	\$ 225	\$ 1,460
Financial income (expenses)	\$ (894)	\$ 304

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 in the total of \$700.

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:

	December 31,	
	2020	2021
Balance, at beginning of Period	\$ 4,236	\$ 6,198
Cumulative effect of adoption of ASU Topic 326	700	-
Provision for expected credit losses	1,636	3,087
Amounts written off charged against the allowance and others	(374)	(698)
Balance, at end of period	\$ 6,198	\$ 8,587



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2021, 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.

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, 2020 and 2021, and the statement of funds status as of December 31, 2020 and 2021:

	December 31,	
	2020	2021
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	2,368	2,510
Interest cost	52	38
Expenses paid	(201)	(170)
Exchange rates differences	50	(85)
Actuarial loss	241	219
Projected benefit obligation at end of year	\$ 2,510	\$ 2,512



CERAGON NETWORKS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The assumptions used in the measurement of the Company' benefits obligations as of December 31, 2020 and 2021 are as follows:

	December 31,	
	2020	2021
Weighted-average assumptions		
Discount rate	1.70%	1.90%
Rate of compensation increase	2.25%	2.75%

The amounts reported for net periodic pension costs and the respective benefit obligation amounts are dependent 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 2021 net periodic benefit cost and the 2021 benefit obligation, the Company has used a discount rate of 1.90%. 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, 2019, 2020 and 2021:

	December 31,		
	2019	2020	2021
Components of net periodic benefit cost			
Service cost	\$ 12	\$ -	\$ -
Interest cost	47	52	38
Net periodic benefit cost	<u>\$ 59</u>	<u>\$ 52</u>	<u>\$ 38</u>

Benefit payments are expected to be paid as follows:

	December 31,	
	2021	
2022		165
2023		160
2024		163
2025		166
2026 and thereafter		<u>1,858</u>
		<u>\$ 2,512</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, 2019, 2020 and 2021, an actuarial loss of \$361, \$241 and \$219 respectively, was recognized in "finance expenses and others, net".



CERAGON NETWORKS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Leases

See Note 13 "Leases" for lease related commitments as of December 31, 2021.

b. During 2019, 2020 and 2021, 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, 2019, 2020 and 2021 in the amount of \$801, \$996 and \$691, 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 accrued on outstanding principal balance at a rate of 1%, computed on a simple interest basis. The loan principal and accrued interest is 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. The loan is presented under "short term loans" in the consolidated balance sheet as of December 31, 2020. The Company submitted application for forgiveness that was approved in May 2021.

d. Charges and guarantees:

As of December 31, 2020 and 2021, the Company provided guarantees in an aggregate amount of \$45,847 and \$37,236 (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. 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.

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CERAGON NETWORKS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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.

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 precede a ruling 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 and 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.

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CERAGON NETWORKS LTD. AND 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, 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.

On May 27, 2021, the Court ruled to certify the Motion as a class action, while applying Israeli Law (the "Ruling"). According to the Ruling, the class action shall include several causes of action according to the Israeli Securities Act and the Israeli Torts Ordinance, concerning the alleged misleading statements in the Company's SEC filings. The Ruling has addressed also the size of the alleged aggrieved shareholders who may be included and be represented in the class action.

On June 9, 2021 the Court issued a decision suggesting that the parties will refer the case to a mediation procedure.

The Company believed that the Ruling is erroneous and that the Company has strong defense arguments, and therefore, on September 12, 2021, filed a motion for a rehearing on behalf of the Company and its directors in order to revert the Ruling (the "Rehearing Motion").

On October 20, 2021, the Plaintiff submitted his response to the Rehearing Motion and the Company submitted its reply to the Plaintiff's response on November 23, 2021. In light of the fact that the Ruling applied and was based upon Israeli Law (instead of the relevant foreign law), the Tel Aviv Stock Exchange filed a motion requesting the court to allow it to join the proceedings as Amicus Curiae, in order to express its principle opinion that the applicable law, in so far as dual listed companies are concerned, is the foreign law, as well as regarding the negative implications of the court's application of Israeli law on dual listed companies.

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CERAGON NETWORKS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Meanwhile, and without delaying or derogating from the Rehearing Motion, the Company agreed to the Court's suggestion that the parties will refer the case to a mediation procedure. After several mediation meetings were held, the mediation process ended without reaching a settlement.

On January 3, 2022 a hearing was held in court in the Rehearing Motion. Following the hearing, on January 25, 2022, the Attorney General joined the proceedings of the Rehearing Motion and submitted his position in collaboration with the Securities Authority. The Attorney General's principle position as outlined, was that the applicable law in so far as dual listed companies are concerned is the foreign law, and in Ceragon case - US law.

On January 27, 2022, a judgment was rendered in the Rehearing Motion. The court ruled that the Ruling was erroneous as it applied Israeli Law, instead of foreign law, and held accordingly that the law that will apply is US law. The court further held that the case will be returned to the first judicial instance and will be adjudicated as a class claim under the US law. The court further held that the Company's claims based upon the Statute of Limitations should also be adjudicated under the US law.

On March 20, 2022, following the court's decision, the Plaintiff filed to the first judicial instance, an amended class action claim, based on provisions of US law. The Company is required to submit its Statement of Defense, by June 26, 2022.

The Company believes that it has strong defense against the allegations referred to in the claim and that U.S law presents a higher bar for plaintiffs in comparison to Israeli law in proving claims regarding misleading representations to investors, and that the Court should deny it. However, bearing in mind that the class action will be adjudicated under US law, and in light of the fact that Ceragon has not yet filed its Statement of Defense, the Company's attorneys were reluctant to assess, at this preliminary stage, the chances of the class action to be accepted.

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 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, 2020 and 2021 were as follows:

	Year ended December 31,		
	2019	2020	2021
Components of lease expense			
Operating lease cost	\$ 5,624	\$ 5,484	\$ 4,869
Short-term lease	\$ 75	\$ 43	\$ 100
Total lease expenses	\$ 5,699	\$ 5,527	\$ 4,969

	Year ended December 31,		
	2019	2020	2021
Supplemental cash flow information			
Cash paid for amounts included in the measurement of lease liabilities	\$ 5,718	\$ 5,489	\$ 4,843
Supplemental non-cash information related to lease liabilities arising from obtaining ROU assets	\$ 8,346	\$ 1,773	\$ 19,166

For the year ended December 31, 2021, the weighted average remaining lease term is approximately eight years, and the weighted average discount rate is 5 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, 2021 were as follows:

2022	4,452
2023	3,740
2024	2,778
2025	2,396
2026 and thereafter	12,326
Total operating lease payments	25,692
Less: imputed interest	4,123
Present value of lease liability	21,569

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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:

1. In 2003, the Company adopted a share option plan which has been extended or replaced from time to time, including on September 6, 2010, December 2012 and August 2014. To date, the plan that is currently in effect is the Amended and Restated Share Option and RSU Plan as amended August 10, 2014 (the "Plan"). Under the Plan, options and RSUs may be granted to officers, directors, employees and consultants of the Company or its subsidiaries. The options vest primarily over four years, subject to certain exceptions. The options expire between six to ten years from the date of grant. The Plan expires in December 2022. The maximum number of shares which may be issued under Options granted pursuant to the Plan is twenty million (20,000,000). The Company needs to reserve, and the Board of Directors has reserved, sufficient authorized but unissued Shares for purposes of the Plan subject to adjustments as provided in the Plan. Since the last amendment in 2014, the Company has issued approximately 7,650,000 options under the Plan.

2. The following table summarizes the activities for the Company's stock options for the year ended December 31, 2021:

	Year ended December 31, 2021			
	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at beginning of year	6,238,729	\$ 3.52	3.17	\$ 2,654
Granted	1,902,868	3.72		
Exercised	(2,098,957)	2.25		
Forfeited or expired	(856,194)	7.75		
Outstanding at end of the year	5,186,446	\$ 3.40	4.01	\$ 534
Options exercisable at end of the year	2,342,399	\$ 3.57	2.75	\$ 370
Vested and expected to vest	4,664,666	\$ 3.41	3.87	\$ 508

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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 2019, 2020 and 2021 was \$1.39, \$1.06 and \$2.25, respectively.

The intrinsic value of options exercised during the years ended December 31, 2019, 2020 and 2021 was \$626, \$770 and \$5,519, respectively.

The following table summarizes the activities for the Company's RSUs for the year ended December 31, 2021:

	Year ended December 31, 2021	
	Number of RSUs	Aggregate intrinsic value
Unvested at beginning of year	309,986	\$ 862
Granted	588,466	
Vested	(129,380)	
Forfeited	(69,393)	
Unvested at end of the year	<u>699,679</u>	<u>\$ 1,805</u>
Vested and expected to vest	<u>493,881</u>	<u>\$ 1,274</u>

The weighted average fair value at grant date of RSUs granted during 2019, 2020 and 2021 was \$2.79, \$2.11 and \$4.07, respectively.

As of December 31, 2021, the total unrecognized estimated compensation cost related to non-vested stock options and RSU's granted prior to that date was \$ 4,563, 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, 2021	Weighted average remaining contractual life (years) for outstanding options	Weighted average exercise price \$	Options and RSUs exercisable as of December 31, 2021	Weighted average remaining contractual life (years) for exercisable options	Weighted average exercise price \$
RSUs 0.0	699,679	-	0.00	-	-	0.00
0.01-2.00	154,389	1.17	1.45	141,239	0.92	1.42
2.01-4.00	4,460,682	4.39	3.05	1,760,845	3.35	2.78
4.01-6.00	281,375	3.31	4.41	150,315	1.80	4.57
6.01-8.00	15,000	0.75	6.21	15,000	0.75	6.21
8.01-10.00	<u>275,000</u>	0.40	9.00	<u>275,000</u>	0.40	9.00
	<u>5,886,125</u>			<u>2,342,399</u>		



CERAGON NETWORKS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2019, 2020 and 2021, was comprised as follows:

	Year ended December 31,		
	2019	2020	2021
Cost of revenues	\$ 71	\$ 110	\$ 289
Research and development, net	366	243	236
Sales and marketing	708	545	700
General and administrative	908	764	1,337
Total share-based compensation expenses	\$ 2,053	\$ 1,662	\$ 2,562

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:

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.



CERAGON NETWORKS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

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, 2021, 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.

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.

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CERAGON NETWORKS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

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 2019, 2020 and 2021.

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.

b. Income taxes for non-Israeli subsidiaries:

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

c. The income tax expense for the years ended December 31, 2019, 2020 and 2021 consisted of the following:

	Year ended December 31,		
	2019	2020	2021
Current	\$ 2,734	\$ 2,641	\$ 2,181
Deferred	(258)	(23)	8,828
	<u>\$ 2,476</u>	<u>\$ 2,618</u>	<u>\$ 11,009</u>
Domestic (Israel)	\$ 781	\$ 839	\$ 8,844
Foreign	<u>1,695</u>	<u>1,779</u>	<u>2,165</u>
	<u>\$ 2,476</u>	<u>\$ 2,618</u>	<u>\$ 11,009</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

d. 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,	
	2020	2021
Deferred tax assets:		
Net operating loss carry forward	\$ 65,641	\$ 64,353
Temporary differences mainly relating to Research and Development, reserves and allowances	28,429	21,472
Deferred tax asset before valuation allowance	94,070	85,825
Valuation allowance	(85,791)	(85,825)
Deferred tax asset, net	\$ 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 \$85,791 and \$85,825 as of December 31, 2020 and 2021 respectively.

e. Net operating loss carry forward and capital loss:

As of December 31, 2021, the Company has accumulated net operating losses and capital loss for Israeli income tax purposes in the amount of approximately \$187,927 and \$8,139, 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, 2021, the Company's Norwegian subsidiary had a net operating loss carry forward of approximately \$25,264 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, 2021, the Company's Brazilian subsidiary had a net operating loss carryforward of approximately \$31,131 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 SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

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

	Year ended December 31,		
	2019	2020	2021
Domestic	\$ (2,171)	\$ (24,192)	\$ (5,430)
Foreign	2,952	10,697	1,611
	<u>\$ 781</u>	<u>\$ (13,495)</u>	<u>\$ (3,819)</u>

g. 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,		
	2019	2020	2021
Income (loss) before taxes as reported in the consolidated statements of operations	<u>\$ 781</u>	<u>\$ (13,495)</u>	<u>\$ (3,819)</u>
Statutory tax rate	23%	23%	23%
Theoretical tax expenses (income) on the above amount at the Israeli statutory tax rate	\$ 180	\$ (3,104)	\$ (878)
Non-deductible expenses and other permanent differences	519	(111)	(1,602)
Non-deductible expenses related to employee stock options	472	383	590
Deferred tax assets on losses and other temporary differences for which valuation allowance was provided, net	977	5,318	12,326
Other	<u>328</u>	<u>132</u>	<u>573</u>
Actual tax expense (benefit)	<u>\$ 2,476</u>	<u>\$ 2,618</u>	<u>\$ 11,009</u>

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CERAGON NETWORKS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

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

	December 31,	
	2020	2021
Beginning balance	\$ 2,492	\$ 2,421
Decreases in tax positions for prior years	(708)	(538)
Increases related to tax positions taken during prior years	184	59
Increase related to tax positions taken during the current year	453	425
Ending balance	<u>\$ 2,421</u>	<u>\$ 2,367</u>

The Company has further accrued \$15 due to interest and penalty related to uncertain tax positions as of December 31, 2021.

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, 2021:

	Year ended December	Year ended December
	31, 2020	31, 2021
Balance, beginning of the period	\$ 7,999	\$ 10,987
New performance obligations	5,210	6,329
Reclassification to revenue as a result of satisfying performance obligations	(2,222)	(4,657)
Balance, end of the period	<u>10,987</u>	<u>12,659</u>
Less: long-term portion of deferred revenue	7,495	9,275
Current portion, end of period	<u>\$ 3,492</u>	<u>\$ 3,384</u>

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CERAGON NETWORKS LTD. AND 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, 2021, which are expected to be satisfied and recognized in future periods:

	2022	2023	2024 and thereafter
Unsatisfied performance obligations	-	550	8,725

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.

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 1 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, 2019, 2020 and 2021 and long-lived assets as of December 31, 2020 and 2021:

	Year ended December 31,		
	2019	2020	2021
Revenues:			
North America	\$ 42,474	\$ 38,165	\$ 47,505
Europe	42,439	44,832	47,382
Africa	25,614	23,497	23,165
Asia-Pacific and Middle East	53,948	47,677	32,008
India	49,748	62,047	86,088
Latin America	71,360	46,663	54,618
	<u>\$ 285,583</u>	<u>\$ 262,881</u>	<u>\$ 290,766</u>

Long-lived assets, net:

	December 31,	
	2020	2021
Israel	\$ 28,312	\$ 42,192
Others	10,216	7,424
Total long-lived assets, net (*)	<u>\$ 38,528</u>	<u>\$ 49,616</u>

(*) Long-lived assets are comprised of property and equipment, net and operating lease right-of-use assets.



CERAGON NETWORKS LTD. AND 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 2021, the Company had revenues from two customers that represent two a group of affiliated companies equaling 18.77% and a single customer equaling 11.37% of total revenues. In 2020, the company had revenues from a single customer that represents group of affiliated companies equaling 22.1% of total revenues. In 2019, the Company had revenues from two customers that represent two groups of affiliated companies equaling 14.0% and 11.8% of total revenues.

NOTE 18:- SELECTED STATEMENTS OF OPERATIONS DATA

a. Financial expenses and others, net:

	Year ended December 31,		
	2019	2020	2021
Financial income:			
Interest on deposits	\$ 111	\$ 79	\$ 160
Foreign currency translation differences and derivatives	190	1,330	571
Others	-	807	-
	<u>301</u>	<u>2,216</u>	<u>731</u>
Financial expenses:			
Bank charges and interest on loans	(3,787)	(4,130)	(4,650)
Foreign currency translation differences and derivatives	(2,627)	(3,716)	(4,449)
Others	(408)	(293)	(257)
	<u>(6,822)</u>	<u>(8,139)</u>	<u>(9,356)</u>
	<u>\$ (6,521)</u>	<u>\$ (5,923)</u>	<u>\$ (8,625)</u>

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CERAGON NETWORKS LTD. AND 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,		
	2019	2020	2021
Numerator:			
Numerator for basic and diluted net loss per share - loss available to shareholders of Ordinary shares	\$ (2,344)	\$ (17,092)	\$ (14,828)
Denominator:			
Denominator for basic and diluted net loss per share - adjusted weighted average number of Ordinary shares	80,296,581	81,149,687	83,414,831

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 \$2,242, \$1,801 and \$2,677 in 2019, 2020 and 2021, respectively.

The Company leases its offices in Israel from real estate holding companies controlled by Yehuda and Zohar Zisapel. The leases of facility expired end of March 2021, except for warehouse which its lease was expired on December 2021.

The aggregate amount of rent and maintenance expenses related to these properties were approximately \$1,936, \$2,099 and \$894 in 2019, 2020 and 2021, respectively.



CERAGON NETWORKS LTD. AND 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 \$152, \$83 and \$305 for the years ended December 31, 2019, 2020 and 2021, respectively.

The Company purchases certain property and equipment from members of the RAD-BYNET group, the aggregate purchase price of these assets was approximately \$46, \$274 and \$175 for the years ended December 31 2019, 2020 and 2021, respectively.

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. As of December 31, 2021, the Company has no seats in Orocom's board of directors and following the return of the guarantees in the beginning of 2020, the Company's protective rights in Orocom were revoked. As a result of the above Orocom and its shareholders are not defined as "related companies" of Ceragon.

b. Transactions with related parties:

	Year ended December 31,		
	2019	2020	2021
Revenues	\$ 6,745	\$ 5,843	\$ 394
Cost of revenues	\$ 1,659	\$ 4,715	\$ 1,125
Research and development expenses	\$ 1,248	\$ 1,245	\$ 608
Sales and marketing expenses	\$ 763	\$ 731	\$ 617
General and administrative expenses	\$ 1,002	\$ 913	\$ 1,527
Purchase of property and equipment	\$ 46	\$ 274	\$ 175
Balances with related parties:			
		December 31,	
		2020	2021
Trade payables, other accounts payable and accrued expenses		\$ 925	\$ 376
Trade Receivables		\$ 13,117	\$ 78

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