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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number 0-30862

CERAGON NETWORKS LTD.

(Exact Name of Registrant as Specified in Its Charter)

Israel

(Jurisdiction of Incorporation or Organization)

24 Raoul Wallenberg Street, Tel Aviv 6971920, Israel

(Address of Principal Executive Offices)

Zvi Maayan (+972) 3-543-1643 (tel.), (+972) 3-543-1600 (fax), 24 Raoul Wallenberg Street, Tel Aviv 6971920, Israel

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class

Ordinary Shares, Par Value NIS 0.01

Trading Symbol(s)

CRNT

Name of Each Exchange on Which Registered

Nasdaq Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report 81,703,366 Ordinary Shares, NIS 0.01 par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒

International Financial Reporting Standards as issued by the International Accounting Standards Board ☐

Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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INTRODUCTION

Definitions

In this annual report, unless the context otherwise requires:

- references to “Ceragon,” the “Company,” “us,” “we,” “our” and the “registrant” refer to Ceragon Networks Ltd., an Israeli company, and its consolidated subsidiaries;
- references to “ordinary shares,” “our shares” and similar expressions refer to our Ordinary Shares, NIS 0.01 nominal (par) value per share;
- references to “dollars,” “U.S. dollars” and “\$” are to United States Dollars;
- references to “shekels” and “NIS” are to New Israeli Shekels, the Israeli currency;
- references to the “Companies Law” are to Israel’s Companies Law, 5759-1999;
- references to the “SEC” are to the United States Securities and Exchange Commission; and
- references to the “Nasdaq Rules” are to the rules of the Nasdaq Global Select Market.

Cautionary Statement Regarding Forward-Looking Statements

This annual report on Form 20-F includes “forward-looking statements” within the meaning of the Securities Act of 1933, as amended (the “Securities Act”) and the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events.

Forward-looking statements can be identified by the use of terminology such as “may,” “will,” “assume,” “expect,” “anticipate,” “estimate,” “continue,” “believe,” “potential,” “possible,” “intend” and similar expressions that are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements discuss future expectations, plans and events, contain projections of results of operations or of financial condition or state other “forward-looking” information. They involve known and unknown risks and uncertainties that may cause the actual results, performance or achievements of Ceragon to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause our actual results to differ materially from those projected in the forward-looking statements include, without limitation, the risk factors set forth under “Item 3. Key Information -D. Risk Factors,” the information about us set forth under Item 4. “INFORMATION ON THE COMPANY” and information related to our financial condition under Item 5. “OPERATING AND FINANCIAL REVIEW AND PROSPECTS” and in this annual report generally. Any forward-looking statements represent Ceragon’s views only as of the date hereof and should not be relied upon as representing its views as of any subsequent date. Ceragon does not assume any obligation to update any forward-looking statements unless required by applicable law.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

The selected financial data set forth in the table below have been derived from our audited historical financial statements for each of the years from 2016 to 2020. The selected consolidated statement of operations data for the years 2018, 2019 and 2020, and the selected consolidated balance sheet data at December 31, 2019 and 2020, have been derived from our audited consolidated financial statements set forth in Item 18. “FINANCIAL STATEMENTS”. The selected consolidated statement of operations data for the years 2016 and 2017 and the selected consolidated balance sheet data at December 31, 2016, 2017 and 2018, have been derived from our previously published audited consolidated financial statements, which are not included in this annual report. This selected financial data should be read in conjunction with our consolidated financial statements and are qualified entirely by reference to such consolidated financial statements. We prepare our consolidated financial statements in U.S. dollars and in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”). You should read the consolidated financial data with the section of this annual report entitled Item 5. “OPERATING AND FINANCIAL REVIEW AND PROSPECTS” and our consolidated financial statements and the notes to those financial statements included elsewhere in this annual report.

Consolidated Statement of Operations Data:

Year ended December 31,

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|--|------------|------------|------------|------------|
| | (In thousands of dollars, except share and per share data) | | | | |
| Revenues | \$ 293,641 | \$ 332,033 | \$ 343,874 | \$ 285,583 | \$ 262,881 |
| Cost of revenues | 194,479 | 224,698 | 227,705 | 188,741 | 187,236 |
| Gross profit | 99,162 | 107,335 | 116,169 | 96,842 | 75,645 |
| Operating expenses: | | | | | |
| Research and development, net | 21,695 | 25,703 | 28,180 | 26,793 | 30,997 |
| Selling and marketing | 39,515 | 41,656 | 42,961 | 39,469 | 33,021 |
| General and administrative | 18,459 | 16,830 | 18,884 | 23,278 | 19,199 |
| Total operating expenses | 79,669 | 84,189 | 90,025 | 89,540 | 83,217 |
| Operating income (loss) | 19,493 | 23,146 | 26,144 | 7,302 | (7,572) |
| Financial expenses and others, net | (6,303) | (5,889) | (6,349) | (6,521) | (5,923) |
| Income (loss) before taxes | 13,190 | 17,257 | 19,795 | 781 | (13,495) |
| Tax benefit (taxes) on income | (1,761) | (1,697) | 3,251 | (2,476) | (2,618) |
| Equity (loss) in affiliates | - | - | - | (649) | (979) |
| Net income (loss) | 11,429 | 15,560 | 23,046 | (2,344) | (17,092) |
| Basic net earnings (loss) per share | \$ 0.15 | \$ 0.20 | \$ 0.29 | \$ (0.03) | \$ (0.21) |
| Diluted net earnings (loss) per share | \$ 0.15 | \$ 0.19 | \$ 0.28 | \$ (0.03) | \$ (0.21) |
| Weighted average number of shares used in computing basic earnings (loss) per share | 77,702,788 | 77,916,912 | 78,579,013 | 80,296,581 | 81,149,687 |
| Weighted average number of shares used in computing diluted earnings (loss) per share | 78,613,528 | 79,942,353 | 81,021,527 | 80,296,581 | 81,149,687 |

Year ended December 31,

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|---------------------------|-----------|-----------|-----------|-----------|
| | (In thousands of dollars) | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Cash and cash equivalents, bank deposits | \$ 36,338 | \$ 26,873 | \$ 36,600 | \$ 23,956 | \$ 27,118 |
| Working capital | 95,950 | 105,362 | 114,990 | 111,267 | 99,447 |
| Total assets | 244,225 | 253,593 | 283,000 | 289,889 | 272,419 |
| Total long term liabilities | 17,555 | 14,245 | 13,231 | 25,100 | 25,869 |
| Shareholders' equity | 116,164 | 133,898 | 159,568 | 160,421 | 146,126 |

Risk Factors

The following risk factors, among others, could affect our business, results of operations or financial condition and cause our actual results to differ materially from those expressed in forward-looking statements made by us. These forward-looking statements are based on current expectations and we assume no obligation to update this information. You should carefully consider the risks described below, in addition to the other information contained elsewhere in this annual report. The following risk factors are not the only risk factors that the Company faces, and as such, additional unknown risks and uncertainties that we currently deem immaterial may also affect our business. Our business, financial condition and results of operations could be seriously harmed if any of the events underlying any of these risks or uncertainties actually occur. In such an event, the market price for our ordinary shares could decline.

Below are some of the main risks factors and challenges that we have been facing and may further face, which could have an adverse effect on our business, results of operations and financial condition:

- the effect of the COVID-19 pandemic ("COVID-19") on the global markets, on the markets in which we operate and on our business and operations;
- the concentration of a significant portion of our business in certain countries and, as we experienced in recent years particularly in India, where a specific customer or customers have represented a significant portion of our revenues;
- sensitivity to changes in demand in the single wireless communication market domain and market segment at which we have focused our business, and related risks if this segment should experience a decline in demand;
- the impact of the transition to 5G technologies on our revenues if transition to 5G is delayed;
- risks related to the rapid change in the markets for our products and in related technologies and operational concepts development;
- competition from other wireless hauling equipment providers and from other communication solutions that compete with our high-capacity point-to-point wireless products;
- difficulties in predicting our gross margin as it is exposed to significant fluctuations as a result of potential changes in the various geographical locations where we generate revenues;
- difficulties in predicting our operating results and revenue, which may vary significantly from quarter to quarter and from our expectations for any specific period;
- the high volatility in the supply needs of our customers which can lead to delivery issues due to long lead time and availability of components and manufacturing power;

- the sharp increase in demand in the global supply of electronic components while production capacity remains limited, which has and may continue to have an adverse effect on the lead-time for our components and their prices;
- reliance on third-party manufacturers, suppliers and service providers, which may disrupt the proper and timely management of deliveries of our products;
- our engagement in providing installation or rollout projects for our customers, which are long-term projects that are subject to inherent risks, including early delivery of our products with delayed payment terms, delays or failures in acceptance testing procedures, credit risks associated with our customers, and other items beyond our control;
- risks related to fluctuations in currency exchange rates and restrictions related to foreign currency exchange controls;
- the occurrence of international, political, regulatory or economic events in emerging economies in Latin America, India, Asia Pacific and Africa, where a majority of our sales are made; and
- increased breaches of network or information technology security along with increase in cyber-attack activities in connection with COVID-19 remote operation mode and changes in privacy and data protection laws could have an adverse effect on our business.

Those and other risk factors are further described and elaborated herein below. You should carefully read and consider the full description of the risk factors as described below, in addition to the other information contained elsewhere in this annual report:

Risks Relating to the COVID-19.

The global COVID-19 pandemic may continue to negatively impact the global economy in a significant manner for a further extended period of time, and may also adversely affect our operating results in a material manner.

The COVID-19 worldwide pandemic has created macro-economic uncertainty and disruption in the business and financial markets. Many countries around the world, including Israel, have been taking various measures designated to limit the spread of COVID-19, including the closure of workplaces, restricting travel, prohibiting assembling, closing international borders and quarantining populated areas. As our global operations require physical presence in many stages of our business activities, including travel for installation and services, shipment of materials and products, as well as teamwork, we are particularly vulnerable to the consequences of and the restrictions caused by COVID-19. If COVID-19 continues to negatively impact the global economy in a significant manner for a further extended period of time, this may also adversely affect our operating results in a material manner.

Below are some of the main risks and challenges that we have been facing and may continue to face as a result of a prolonged disruption of work due to COVID-19, which could have an adverse effect on our business, results of operations and financial condition:

- **Disruptions to production and installation operations.** Restrictions on our operations and those of our suppliers and contractors, including on our or their ability to manufacture, 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 events in territories in which we or our customers are operating, as well as temporary closures of our facilities or the facilities of our contractors and suppliers, and prohibitions on the export, import or release from customs of product and components.

- **Disruptions to our supply chain and outsourced production activities that could extend lead times and significantly increase the price of one or more component or materials, production, and shipment costs.** COVID-19 presents various challenges to our supply chain and manufacturing activities, which we outsource. Due to COVID-19 travel limitations, it is immensely challenging to train and certify new suppliers, or certify new production lines, which limits our flexibility to efficiently manage our supply chain. COVID-19 has also adversely affected, and may continue to adversely affect, our costs, including a significant increase in shipment costs. In light of the downward pressure on the prices for our products that we experience, such increased costs cannot always be reflected in the prices for our products, which causes erosion in our margins and has an adverse effect on our results of operations.
- **Disruptions to our Marketing and Sales activities.** Disruptions or restrictions may also be imposed on our marketing and sales operations, including on our ability to interact with existing and new customers, to submit bids and purchase orders, participate in RFPS (Requests For Proposals; e.g., tender bids), perform site-visits and surveys, provide outdoor/field services or other after sale support, maintenance and repair services.
- **Adverse effects on employees' health, working routines and teamwork.** Most of our employees in Israel have been vaccinated against COVID-19, however, with respect to those employees worldwide that have not been vaccinated, or if and in case the vaccine is proven not to be effective against the virus or any mutation thereof, COVID-19 could continue to endanger or harm the health of our employees, including key employees, which could in turn harm our ability to fully and effectively function. Key employees may lose their ability to manage and run our operations, share their know-how and further pursue the development of our products and business; in addition, the issuance of quarantine orders by governmental authorities around the world, prohibiting some or all of our employees to exit their home other than for specific purposes, could also lower work efficiency, productivity and service quality. Further, difficulties to enable joint work or the gathering of work-teams, difficulties in remote connectivity and lack of equipment issues may cause errors and delays in our working routines, delays in project timelines, as well as failure to adhere to various regulatory requirements to which we are subject.
- **Damage to significant customers.** COVID-19 has had and could continue to have an adverse effect on our business as a result of the materialization of any of the above or similar risks with respect to our significant customers. Our business has been and could further be impacted negatively if there is a prolonged impact of COVID-19 in countries from which we generate a significant portion of our business. For example, this may cause and to some extent has caused a freeze of procurement budgets, cancellation, suspension or reduction in new equipment purchases from us, failure by our customers in meeting their obligations under purchase orders already issued, postponement or cancellation of rollout projects for wireless networks, or the inability to pursue network development towards 5G, and consequently, postponement in the transition to 5G technologies and in the introduction of our new products and capabilities.
- **Monetary penalties and fines and/or damage to our reputation.** Delays in production, shipment, delivery and installation due to restrictions limiting or preventing our ability to deliver and perform under our contracts, could cause imposition of fines, penalties, damages and contract terminations, that may also damage our relationships with our customers and our reputation.
- **Difficulties in debt collection.** COVID-19 may cause delays in billing and in collection of amounts due from our customers, and in satisfying revenue recognition procedures, including as a result of financial difficulties and insolvencies of major customers, which could lead to slowing the payment of their obligations to us or even discharging those obligations; inability to surrender or receive payment documents such as acceptance certificates, invoices, receipts, guaranties, bills of lading, airway bills or documentary payment certificates, and in particular, to surrender hard copy originals where required.
- **Disruption to R&D efforts.** A slowdown and delays in our R&D projects, due to the effect of COVID-19 restrictions and constraints, might delay introductions of our new products while exposing us to significant loss. Third parties with whom we have engaged to cooperate or take part in such R&D projects may abandon their engagement with us and withdraw from their investments, while imposing on us significant loss and expenditure.

- **Damage to our competitive position in the market.** Since we focus on one market segment (as further detailed below), we may not benefit from certain conditions resulting from COVID-19, as opposed to other players in the market. For example, we did not benefit from the growth in demand for bandwidth and connectivity due to the increased need for remote applications, as did the WISPs (Wireless Internet Service Providers).

We are closely monitoring the developments and continually assessing the potential impact of COVID-19 on our business and the mitigation measures to minimize that impact. There is a global uncertainty with respect to the expected timing for the defeat of COVID-19. It is not clear for how long protective measures will continue to be imposed, whether the vaccination will be effective in stopping the continued spread of the virus and how quickly, if at all, there will be enough of the population vaccinated for such solution to become effective. As the scale and duration of these effects remain uncertain, further realization of any of the above-mentioned or other risks could have macro and micro negative effects on the global economy and financial markets in general, and on our business in particular, and cause a material risk to our operations, financial condition and share price.

Risks Relating to Our Business

It is difficult to predict the impact of the transition to 5G technologies on our revenues as it depends, among other things, on the timelines of such transition.

We consider the wireless market transition from 4G to 5G technologies to be one of our main growth engines in the foreseeable future. Thus, the development roadmap of our products is designed to introduce to the market 5G-based products. Nonetheless, the timeline and scope of the transition is hard to predict, as it depends on numerous factors which are uncertain and beyond our control, including 5G technology developments, standardization and deployments of 5G networks, as well as on the effect of COVID-19 on the ability to, among other things, deploy 5G networks. The expected transition from 4G to 5G technologies has led to an overall slowdown in procurement and capital investments in 4G infrastructure and equipment by our customers, and such slowdown, among other things, contributed to a decline in our 2020 and 2019 results. Further delays in 5G technologies deployment, could have an adverse effect on our future revenues, profitability and cash flow and cause our results to materially differ from our expectations.

A significant portion of our business concentrates in certain countries and particularly in India, where one customer represents a significant portion of our revenues. Such concentration has, and may in the future again, negatively affect our business, financial condition and results of operations, as the amount of business coming from the customers in these regions and more specifically from this one customer in India, has significantly decreased in recent periods.

In 2020, approximately 19.7% of our total revenues were attributed to one customer that represents a group of affiliated companies in India. In 2018 and 2019, approximately 37.0% and 17.0%, respectively, of our total revenues were attributed to two customers in India. Since (i) government actions relating to the rollout of cellular networks also has an effect on the demand for our products from customers in India, (ii) our sales are mostly generated from case-by-case purchase orders rather than long-term contracts, and (iii) said customers in India are not bound by any minimum quota, we therefore have difficulty projecting future revenues from these customers. The loss of such a significant customer or any material reduction in orders from that region in the absence of gaining new significant customers to replace any lost business has adversely affected, and in the future, 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 from these customers, would have, and has had in the past, an adverse effect on our ability to report future revenues, profitability and cash flow.

Furthermore, since a significant portion of our business is derived from specific countries, such as India, our business could be negatively impacted should certain events occur in these countries, such as a slowdown in investments and expansion of communication networks due to the cyclical characteristic of the investment in this industry, as well as changes in local legislation, changes in governmental controls and regulations (including those specifically related to the communication industry), changes in tariffs and taxes, trade restrictions, downturn in economic or financial conditions, and an outbreak of natural calamities, such as floods, epidemics (such as COVID-19) and fires. Also, an outbreak of hostilities, political or economic instability, as well as any other extraordinary events having an adverse effect on the economy or business environment in these countries, may harm the operations of our customers in these countries, and result in a significant decline of business coming from those countries. Realization of any of these or other risks could result in a material reduction in orders and could adversely affect our results of operations, including cash flow and our financial condition. Although some of those risks derive inherently from the concentration of our business, certain risks may be attributed also to the geographical territories in which we operate as detailed under the risk “Due to the volume of our sales in emerging markets, we are susceptible to a number of political, economic and regulatory risks that could have a material adverse effect on our business, reputation, financial condition and results of operations”.

We sell products and services in one single market domain of the wireless communication market and have been focusing on the “best-of-breed” market segment of the wireless hauling market, which we believe has the most profit potential. Selling in a single market domain and focusing on one segment of the market may result in sensitivity to the changes in demand for this market segment. If this segment of the market should experience a decline in demand it would likely negatively affect our business, financial condition and results of operations.

We mainly attribute our leadership position in our target market to the continued implementation of our business strategy, a key element of which is the focus on the “best-of-breed” market segment of the wireless hauling market. Focusing on this one market segment led to a decline in sales in 2020 and 2019, as opposed to a growth in sales in 2018 and 2017. Investment cycles in this market depend on technology cycles of mobile networks services (e.g., 4G to 5G technologies). Hence, if this segment of the market or the service providers enter into a negative cycle, or our market share in the market shrinks, our sales and revenues may decline, and our results of operations and cash flow may be significantly and adversely affected. In such case, we may need to take cost reduction measures, which may adversely impact our research and development, operations, marketing and sales activities and our ability to effectively compete in the market.

Moreover, we develop and sell products in one market domain of the wireless communication market, characterized as point-to-point licensed wireless connectivity - often referred to as “backhaul”, “midhaul”, “fronthaul” or simply wireless “hauling” - into this “best-of-breed” market segment. As a result, we are more likely to be adversely affected by a reduction in demand for point-to-point wireless hauling products in comparison to companies that also sell multiple and diversified product lines and solutions in different market domains. If technologies or market conditions change, resulting in a decreased demand for our specific technology, it could have a material adverse effect on our business, financial results and financial condition as we attempt to address these issues.

The markets for our products change rapidly. If we fail to timely develop, commercialize and market new products that keep pace with technological developments, the changing industry standards and our customers’ needs, or if our competitors or new market entrants introduce their products before us, we may not be able to grow, may lose market share or may not be able to sustain our business.

The wireless equipment industry is characterized by rapid technological developments, changing customer needs that expect increase in product performance and evolving industry standards, as well as increasing pressure to produce more cost-effective products. These rapid technological developments could either render our products obsolete or require us to modify our products, necessitating significant investment, both in time and cost, in new technologies, products and solutions. Our success depends, among other things, on our ability to maintain an agile infrastructure that is capable of adapting to such changes in a timely manner, developing and marketing new products or enhancing our existing products in a timely manner in order to keep pace with developments in technology and customer requirements, but we cannot assure you that any such development or production ramp-up will be completed in a timely or cost-effective manner, or how the market will receive or adopt our products compared to our competitors’ products.

We are continuously seeking to develop new products and enhance our existing products. In 2020 we released our IP-50 products’ family, which joined our line of point-to-point wireless hauling products, designed to deliver premium wireless hauling capabilities. The IP-50 products deliver solutions to various use cases, including 5G scenarios. In addition, we have achieved leadership in technology by innovating through design of state-of-the-art Systems-on-Chip (SoC), which we plan to integrate in the products we provide. While we expect to release and tape-out our 5 generation SoC in the next couple of months, we cannot assure you that we will be able to successfully complete such sophisticated and technology-rich SoCs by the time we expect to do so, or at all, and as a result, we may need to purchase SoCs from another source, which may not have the same qualities, and may be more expensive, which will impact negatively our gross profit. Moreover, we cannot provide any assurance that our new products, will be accepted in the market or will result in profitable sales or that such products will not require additional quality assurance and defect-fixing processes. We also record perpetual usage rights of technologies of third parties, as well as part of our R&D investments, as assets on our balance sheet. While at the time we record such items as assets, the estimated risk of failure of our R&D integration efforts into our new products and into our new SoC is low, if we fail with our new product introduction, we may incur significant loss.

Furthermore, as noted above, we consider the wireless market transition from 4G to 5G technologies to be one of our main growth engines in the foreseeable future. If our competitors or new market entrants will develop products for this market that are, or are perceived to be, more advantageous to our customers from a technological and/or financial (i.e., cost-benefit) perspective, or if they introduce and market their products prior to us doing so, they may be able to better position themselves in the market and we may lose potential or existing market share, which could have a material adverse effect on our business, financial results and financial condition.

Our market is also characterized by a growing demand for more sophisticated and rich software-based capabilities within the network IP layer (layer 3 routing/MPLS), some of which may require us to utilize and embed additional components, either in hardware or software (including third-party software), in solutions we provide. We cannot assure you that we will continue to be successful in providing these necessary software-based capabilities in a cost-effective manner, which could affect our business performance.

In addition, new products and new versions of existing products are more prone to technical problems which may, among other things, adversely affect our ability to ramp up and to meet delivery commitments to our customers in a timely manner, and may cause us to incur additional manufacturing, development and repair costs. This may have a material adverse effect on our business and results of operation.

Lastly, we cannot assure you that we will continue to forecast successfully technology trends or that we will continue to anticipate innovations made by other companies and respond with our own innovation in a timely manner, which could affect our competitiveness in the market.

Our future operations are based on forward-looking forecasts, among other things, on market trends, future business concepts and use cases, and customers' needs and requirements, while there is no assurance that such forecasts will materialize as we predicted. If we fail to rightfully identify those needs and trends, we may experience a decline in the demand for our products and our business, financial condition and results of operations could be materially adversely affected.

We have based the future planning of our corporate, business, marketing and product strategies on the forecasted evolution of the market developments, such as market trends, future use cases, business concepts, technologies and future demand, and accordingly shape the development of our networks' architecture design, technological and operational solutions and offering, so as to adapt to such estimated needs and changes. As an example, part of our solutions are focused on Open RAN and on disaggregated architecture model. We cannot assure you that the concept of Open RAN and disaggregation will be accepted, or that we have successfully forecasted or will continue to successfully forecast such trends, that the markets will shape as we anticipated or that our offering will indeed satisfy the future demand. A failure in any of the above, may result in significant losses and a decline in the demand for our products, and may adversely affect our financial results and reputation.

Design wins may not assure or secure the materialization of an actual sale.

As part of the marketing and sales of our products, predominantly such that had been recently released and introduced to the market or to the specific customer, including new 5G technologies, our products and solutions undergo an evaluation stage and design into the customer's products or systems. The award of a Design Win does not necessarily mean that such customer shall eventually buy our products or that only our solution has been chosen for the design. Any such design and evaluation phase is subject to the risk of failure to meet the customer's technological and operational requirements, specifications, delivery date or certain other parameters at any time before the design is frozen. Thus, Being awarded a Design Win does not assure nor secure the materialization of actual sale and should not be relied upon by you as such.

We face intense competition from other wireless hauling equipment providers and from other communication solutions that compete with our high-capacity point-to-point wireless products. If we fail to compete effectively, we may experience a decline in the demand for our products and our business, financial condition and results of operations could be materially adversely affected.

The market for wireless hauling equipment is rapidly evolving, highly competitive and subject to rapid changes.

Our main competitors include companies such as Huawei Technologies Co., Ltd., L.M. Ericsson Telephone Company, NEC Corporation, Nokia and ZTE Corporation, commonly referred to as "generalists", each providing a vast wireless solutions portfolio, which includes a wireless hauling solution within their portfolio. These generalists may also compete with us on "best-of-breed" projects, in which operators invest resources and efforts to select the best wireless hauling solution. In addition to these primary competitors, a number of smaller wireless hauling specialists, including Aviat Networks Inc., SIAE Microelectronica S.P.A. and Intracom Telecom, offer, or are developing, competing products.

In addition, the industry generalists are substantially larger than us, have longer operating histories and possess greater financial, sales, service, marketing, distribution, technical, manufacturing and other resources. These generalists have greater name recognition, a larger customer base and may be able to respond more quickly to changes in customer requirements and evolving industry standards.

To our knowledge, many of these generalists also have well-established relationships with our current and potential customers and may have extensive knowledge of our target markets, which may give them additional competitive advantages. In addition, to our knowledge, these generalists focus more on selling services and bundling the entire network as a full-package offering, and therefore some of our customers, which seek "best-of-breed" solutions like ours, may prefer to purchase "bundled" solutions from the generalists. Moreover, as these generalists are usually financially stronger than us, they may be able to offer customers more attractive pricing and payment terms, as well as customer credit programs, which may increase the appeal of their products in comparison to ours.

In addition, our products compete with other high-speed communications solutions, including fiber optic lines and other wireless technologies. Some of these technologies utilize existing installed infrastructure and have achieved significantly greater market acceptance and penetration than high-capacity point-to-point wireless technologies. Moreover, as more and more data demands are imposed on existing network frameworks coupled with growing demand for additional bandwidth as a result of massive use of remote services and work from home modes of operation accelerated by the COVID-19 pandemic, and due to consolidation of fixed and mobile operators, operators may be more motivated to invest in more expensive high-speed fiber optic networks to meet current needs and remain competitive. Some of the principal disadvantages of high capacity, point-to-point wireless technologies that may make other technologies more appealing include suboptimal operations in extreme weather conditions and limitations in connection with the need to establish line of sight between antennas and limitations in site acquisition for multiple links, favoring other technologies.

To counter the disadvantages of licensed point to point wireless technologies, license exempt technologies in the V-band spectrum (60Ghz band), which can operate in the wide bandwidth available at this band, may be used to deliver multi-Gbps capacity backhaul for a limited set of scenarios, such as dense urban areas, serving short range point-to-multipoint communications, thereby reducing site acquisition barriers, enabling flexible deployment models. Though the applicability of such solutions is limited to a small set of use cases, with shared capacity thus limiting the peak capacity available for urban backhaul, those may take a share of point-to-point solutions we provide for these same urban scenarios. Furthermore, future 5G implementations may require on-the-move solutions to establish communication channels with moving platforms, creating an additional advantage to point to multi-point solutions. In addition, 5G-NR Integrated Access and Backhaul (IAB of 5G-NR) technology which operates within the 5G access band, can potentially be used to connect base station/small cell sites to one another. Though the applicability of such solutions is limited to a small set of use cases, with shared capacity thus limiting the peak capacity available for urban backhaul, those may take a share of point to point solutions we provide for these same urban scenarios.

To the extent that these competing communications solutions reduce demand for our high-capacity point-to-point wireless transmission products, there may be a material adverse effect on our business and results of operations.

Moreover, some of our competitors can benefit from currency fluctuations as their costs and expenses are primarily denominated in currencies other than the U.S. dollar. In case the U.S. dollar strengthens against these currencies these competitors might offer their products and services for a lower price and capture market share from us, which might adversely affect our business and negatively influence our results of operation and financial condition.

We expect to face continuing competitive pressures in the future. If we are unable to compete effectively, our business, financial condition and results of operations would be materially adversely affected. For more information on the “best-of-breed” market, please refer to Item 4. INFORMATION ON THE COMPANY; B. Business Overview – “Wireless Hauling; Short-haul, Long-haul and Small Cells Hauling”.

It is difficult to predict our gross margin as it is exposed to significant fluctuations as a result of potential changes in the geographical mix of our revenues.

Our revenues are derived from multiple regions, each of which may consist of a number of countries. Gross margin percentages may vary significantly between different regions and even among different countries within the same region and even within different customers in the same country, dependent on the size and characteristic of specific deal terms. A significant change in the actual ratio of our revenues among the different regions/countries, whereby the actual ratio of revenues from a higher gross margin region/country exceeds our expectations, may cause our gross margin to significantly increase, while in case the actual ratio of revenues from a lower gross-margin region/country exceeds our expectations, our gross-margin may significantly decrease.

Our operating results and revenue are hard to predict and may vary significantly from quarter to quarter and from our expectations for any specific period.

Our quarterly results are difficult to predict and may vary significantly from quarter to quarter, or from our expectations and guidance for any specific period. Most importantly, delays in product delivery or completion of related services, or delays in projects timetable on part of our customers, can cause our revenues, net income and operating cash flow to deviate significantly from anticipated levels, especially as a large portion of our revenues are traditionally generated towards the end of each quarter.

Additionally, a significant portion of our business is concentrated with certain customers, and since large customers are not obligated to purchase from us a fixed amount of products or services over any period of time and may terminate or reduce their purchases from us at any time without prior notice or penalty, we have difficulty projecting future revenues from these customers, which highly affects our overall revenue, cash-flow and business.

Moreover, factors such as geographical mix, delivery terms and timeline(s), product mix, related services mix and other deal terms may differ significantly from our expectations, and thus impact our revenue recognition timing, gross margins, costs and expenses, as well as cash flow from operations. In addition, the spending decisions of our customers throughout the year may also create unpredictable fluctuations in the timing in which we receive orders and can recognize revenues, which may impact our quarterly results. Such unpredictable fluctuations could be material in cases where these spending decisions are made by our largest customers or regarding significant deals. Additionally, the aggregation of several revenue recognition requirements for each such transaction, results in difficulty and complexity in establishing a firm prediction as to the end-of-term results, and consequently, our actual revenue rates may significantly exceed or be less than our expectations.

We experience high volatility in the supply needs of our customers, which from time to time lead to delivery issues due to long lead time and availability of components and manufacturing power. If we fail to effectively cope with such volatility and short-noticed supply demands of our customers, we may be unable to timely fulfill our customer commitments, which would adversely affect our business and results of operations for a certain quarter.

The delivery requirements of our customers are unevenly spread throughout the year. We may receive very large orders that were not forecasted, or that were expected with a different timing requirement. In addition, we offer our products to our customers in a wide variety of products variations and configurations, and our inability to forecast the quantities or mix of the delivery demands for our products may result in underestimating our material purchasing needs, as well as production capacity requirements. If we fail to effectively manage our deliveries to the customers in a timely manner, or otherwise fulfill our contractual obligations to them - for example if we are unable to synchronize our supply chain and production process in cases of rapidly increasing production needs - the cost of our material purchasing, manufacturing and logistics may increase and we may also be obligated to pay penalties to our customers for delays, all of which would adversely affect our business, financial results and our relationship with our customers.

The global supply of electronic components, including integrated circuits, has experienced, and may continue to experience, a sharp increase in demand, while production capacity remains limited, which had, and may continue to have, an adverse effect on the lead-time for our components and increase in their prices.

The global demand for electronic components has experienced a sharp increase in the past several years, with a growing number of industries increasing their demand and consumption. This, together with the effect of COVID-19 and trade embargos which have discouraged U.S. companies from using fabs in China, have led to a stretch in the lead-time of electronic components, which in turn has led many companies to stock up and increase their inventory levels, which has added to the pressure on the supply chain and caused an increase in the prices of the electronic components. These factors may have an adverse effect on our supply chain and on our ability to fulfill customer orders in a timely manner, which could in turn have an adverse effect on our position in the market and on our business and operations.

Relying on third-party manufacturers, suppliers and service providers may disrupt the proper and timely management of deliveries of our products, a risk that is intensified in the case of a single source supplier.

We outsource our manufacturing and the majority of our logistics operations and purchase ancillary equipment for our products from contract and other independent manufacturers. Although our policy is to maintain a second source for all of our products' components, disruption in deliveries or in operations of these and other third-party suppliers or service providers, as a result of, for example, capacity constraints, production disruptions, price increases, regulatory restrictions, force majeure events, decreased availability of raw materials or commodities, as well as quality control problems related to components, may all cause such third parties not to comply with their contractual obligations to us. This could have an adverse effect on our ability to meet our commitments to customers and could increase our operating costs. Such risk is intensified when there is a sharp increase in demand for components throughout the electronic industry. For additional information see *"The global supply of electronic components, including ICs, has experienced, and may continue to experience, a sharp increase in demand, while production capacity remains limited, which had, and may continue to have, an adverse effect on the lead-time for our components and increased their prices"*.

Although we believe that our contract manufacturers and logistics service providers have sufficient economic incentive to perform our manufacturing and logistics services requirements, the resources devoted to these activities are not within our control. We cannot assure you that manufacturing or logistics problems will not occur in the future due to insufficient resources devoted to our requirements by such manufacturers and logistics service providers, or due to insolvency or other circumstances that could have a material adverse effect on those manufacturers and logistics service providers' operations.

In addition, some of our contract manufacturers currently obtain key components from a limited number of suppliers. Our contract manufacturers' dependence on a single or sole source supplier, or on a limited number of suppliers, subjects us to the following risks:

- The component suppliers may experience shortages in components and interrupt or delay their shipments to our contract manufacturers. Consequently, these shortages could delay the manufacture of our products and shipments to our customers.
- The component suppliers could discontinue the manufacture or supply of components used in our systems. In such an event, we or our contract manufacturers may be unable to develop alternative sources for the components necessary to manufacture our products, which could force us to redesign our products or buy a large stock of the component into inventory before it is discontinued. Any such redesign of our products would likely interrupt the manufacturing process and could cause delays in our product shipments. Moreover, a significant modification in our product design may increase our manufacturing costs and bring about lower gross margins. In addition, we may be exposed to excess inventory of such component, which we will have to write-down in case the demand is not as high as we anticipated at the time of buying these components.
- The component suppliers may significantly increase component prices at any time and particularly if demand for certain components increases dramatically in the global market which would have an adverse effect on the Company's business.
- The component suppliers may significantly increase the time to produce and deliver their components at any time resulting in an immediate effect, as evidenced recently with respect to the semiconductors foundry industry. These lead time increases would delay our products' delivery timetable and could expose us to shortage in supply or late supplies that may trigger penalties, orders cancellation and losing some of our customers.
- The component suppliers may refuse or be unable to further supply such component for various reasons, including, among other things, their prioritization, focus, regulations, force majeure events or financial situation.

The materialization of the risks detailed above could result in delays in deliveries of our products to our customers, which could subject us to penalties payable to our customers or cancellation of orders, increased warranty costs as well as increases in manufacturing and shipment expenses in the case of expedited deliveries, as well as damage our reputation. If any of these problems occur, we may be required to seek alternate manufacturers or logistics service providers and we may not be able to secure such alternate manufacturers or logistics service providers that meet our needs and standards in a timely and cost-effective manner. Consequently, such occurrences, extra costs and penalties could significantly reduce our gross margins and profitability. The above-mentioned risks are exacerbated in the case of raw materials or component parts that are purchased from a single-source supplier.

We are engaged in providing installation or rollout projects for our customers, which are long-term projects that are subject to inherent risks, including early delivery of our products with delayed payment terms, delays or failures in acceptance testing procedures and other items beyond our control, all of which could have a material adverse effect on our results of operations or financial condition.

In certain projects, we serve as an integrator and prime contractor of end-to-end rollout projects, which include installation and other services for our customers. In this context, we may act as the prime contractor and equipment supplier for network build-out projects, providing installation, supervision and commissioning services required for these projects, or we may provide such services and equipment for projects handled by system integrators. Those rollout projects often require us to deliver products and services representing an important portion of the contract price before receiving any significant payment from the customer, as significant amounts are to be paid by our customers over time. In addition, these types of projects could cause us to experience substantial period-to-period fluctuations in our results of operations and financial condition.

Once a purchase order has been executed, the timing and amount of revenue may remain difficult to predict. The completion of the installation and testing of the customer's networks and the completion of all other suppliers' network elements are subject to the customer's timing and efforts, and other factors outside our control, such as site readiness for installation or availability of power and access to sites, which may prevent us from making predictions of revenue with any certainty. Throughout the COVID-19 outbreak, for example, we have experienced difficulties in completion and testing of sites or in obtaining acceptance certificates due to travel limitations, lockouts restrictions and other disruption of our and our suppliers' activities or of our customers' operations, which impair our ability to recognize revenue.

Also, as we usually engage subcontractors, third party service providers and temporary employees to perform a significant part of the work (such as installation, supervision, on-site testing, commissioning, repair and replacement services), we are dependent on such service providers' and temporary employees' timely and quality performance, including with respect to the fulfillment of or default under their back-to-back obligations to those we may have undertaken vis-à-vis our customers, as well as pricing that may fluctuate significantly due to various factors. All these factors may affect our ability to accurately project our costs and profits in providing these services and may result in significant deviations from our projections, which may adversely affect our financial results. In addition, we may be subject to other risks that may apply to our subcontractors or associated with their businesses.

In some of these projects, we may need to provide bank guarantees to ensure successful completion of the rollout services, to secure an advance payment we have received, in case we fail to meet our obligations, or to secure our warranty obligations. As a result, in these projects we assume greater financial risk. In addition, these types of projects could cause us to experience substantial period-to-period fluctuations in our results of operations and financial condition.

In addition, typically in rollout projects, we are dependent on the customer to issue acceptance certificates to generate and recognize revenue. In such projects, we bear the risks of loss and damage to our products until the customer has issued an acceptance certificate upon successful completion of acceptance tests. Moreover, we are not always the prime integrator in these projects and in such cases, the acceptance may be delayed even further since it depends on the acceptance of other network elements not in our control. The early deployment of our products during a long-term project reduces our cash flow, as we generally collect a significant portion of the contract price after successful completion of an acceptance test. If our products are damaged or stolen, if the network we install does not pass the acceptance tests or if the customer does not or will not issue an acceptance certificate, the end user or the system integrator could refuse to pay us any balance owed and we would incur substantial costs, including fees owed to our installation subcontractors, increased insurance premiums, transportation costs and expenses related to repairing or manufacturing the products. In such a case, we may not be able to repossess the equipment, thus suffering additional losses.

Our offering includes full design and implementation of wireless communication networks, while also using technologies of third-party vendors. The complexity of such projects and the reliance on third parties' performance is increasing the risk of not meeting our performance obligations. As a result, the completion of such projects may be delayed, or the outcome may not be to the full satisfaction of the customer, who may in turn, impose penalties or exercise any other remedy available to customers in the service contract. In addition, the cost of such projects may be higher than planned. This may result in significant losses and may adversely affect our financial results.

Our engagement in long term projects expose us to customers credit risks.

Our offering includes long term projects such the networks rollout, program-based selling, 5G design wins and the like. Some of those projects are characterized by providing customers' credit and availing long payment terms, which exposes us to the risks of default, insolvency, or other adverse effect on the customer's ability to pay us. Although we hedge or insure some of those risks, the entire exposure cannot be covered. This may result in significant losses and may adversely affect our financial results.

Our international operations expose us to the risk of fluctuations in currency exchange rates and restrictions related to foreign currency exchange controls.

Although we derive a significant portion of our revenues in U.S. dollars, a portion of our revenues are derived from customers operating in local currencies other than the U.S. dollar. Therefore, devaluation in the local currencies of our customers relative to the U.S. dollar could cause our customers to cancel or decrease orders or to delay payment, which could have a negative impact on our revenues and results of operations. We are also subject to other foreign currency risks including repatriation restrictions in certain countries, particularly in Latin America, Asia Pacific and in Africa. See also the risk of "Due to the volume of our sales in emerging markets, we are susceptible to a number of political, economic and regulatory risks that could have a material adverse effect on our business, reputation, financial condition and results of operations".

A substantial portion of our operating expenses are denominated in NIS, and to a lesser extent, other non-U.S. dollar currencies. Our NIS-denominated expenses consist principally of salaries and related costs as well as other related personnel expenses. In addition, our lease and Israeli facility-related expenses and certain engagements with other Israeli vendors are denominated in NIS as well. We anticipate that a portion of our expenses will continue to be denominated in NIS. Devaluation of the U.S. dollar against the NIS, could have a negative impact on our results of operations.

We use derivative financial instruments, such as foreign exchange forward contracts, to mitigate the risk of changes in foreign exchange rates on our balance sheet accounts and forecast cash flows. We do not use derivative financial instruments or other “hedging” techniques to cover all our potential exposure and may not purchase derivative instruments that adequately insulate us from foreign currency exchange risks. In some countries, we are unable to use “hedging” techniques to mitigate our risks because hedging options are not available for certain government restricted currencies. Moreover, derivative instruments are usually limited in time and as a result, cannot mitigate currency risks for the longer term. During 2020, we incurred losses in the amount of \$1.7 million as a result of exchange rate fluctuations that have not been fully offset by our hedging policy. The volatility in the foreign currency markets may make it challenging to hedge our foreign currency exposures effectively.

In some cases, we may face regulatory, tax, accounting or corporate restrictions on money transfer from the country from which consideration should have been paid to us (or to our respective selling subsidiary) or revenues could have accumulated and allocated to us, or could face general restriction on foreign currency transfer outside of such country. Inability to collect and receive amounts that are already due and payable, could have a negative impact on our results of operations.

Additional tax liabilities could materially adversely affect our results of operations and financial condition.

As a global corporation, we are subject to income and other taxes both in Israel and in various foreign jurisdictions including indirect as well as withholding taxes. Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and differentiation in the timing of recognizing revenues and expenses. Our tax expense includes estimates or additional tax, which may be incurred for tax exposures and reflects various estimates and assumptions, including assessments of our future earnings that could impact the valuation or recognition of our deferred tax assets. From time to time, we are subject to income and other tax audits, the timing of which is unpredictable. Our future results of operations could be adversely affected by changes in our effective tax rate as a result of a change in the mix of earnings in countries with differing statutory tax rates, changes in our overall profitability, changes in tax legislation and rates, changes in tax treaties, changes in international tax guidelines (such as the OECD Base Erosions and Profit Shifting project – known as BEPS), changes in generally accepted accounting principles, changes in the valuation or recognition of deferred tax assets and liabilities, the results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures. While we believe we comply with applicable tax laws, there can be no assurance that a governing tax authority will not have a different interpretation of the law and impose additional taxes. Should we be assessed with additional taxes, there could be a material adverse effect on our results of operations and financial condition.

Due to the volume of our sales in emerging markets, we are susceptible to a number of political, economic and regulatory risks that could have a material adverse effect on our business, reputation, financial condition and results of operations.

A majority of our sales are made in emerging economies in Latin America, India, Asia Pacific and Africa. For each of the years ended December 31, 2020 and 2019, sales in these regions accounted for approximately 69% and 70% of our revenues, respectively. As a result, the occurrence of international, political, regulatory or economic events in these regions could adversely affect our business and result in significant revenue shortfalls and collection risk. Any such revenue shortfalls and/or collection risks could have material adverse effects on our business, financial condition and results of operations. For example, in the past few years, due to a shortage of foreign currency, the Central Bank of Nigeria put in place a number of currency controls aimed at reducing the flow of foreign currency in Nigeria and out of the country. These restrictions make it hard for our customers in Nigeria to pay for equipment purchases in U.S. dollars. In some cases, payment for imported goods is made in Nigerian Naira, which exposes us to significant currency fluctuations.

Below are the main risks and challenges that we face as a result of operating in emerging markets:

- unexpected or inconsistent changes in regulatory requirements, including security regulations, licensing and allocation processes;
- unexpected changes in or imposition of tax, tariffs, customs levies or other barriers and restrictions;
- fluctuations in foreign currency exchange rates;
- restrictions on currency and cash repatriation;
- the burden of complying with a variety of foreign laws, including foreign import restrictions which may be applicable to our products;
- difficulties in protecting intellectual property;
- laws and business practices favoring local competitors;
- collection delays and uncertainties;
- business interruptions resulting from geopolitical actions, including war and acts of terrorism, or natural disasters, emergence of a pandemic, or other widespread health emergencies (or concerns over the possibility of such an emergency, including for example, the COVID-19 outbreak);
- requirements to do business in local currency;
- requirements to manufacture or purchase locally, including the possible transfer of knowhow and intellectual property licenses; and
- judicial systems that do not apply the principals of natural justice with regard to disputes with foreign nationals.

Business practices in emerging markets may expose us to legal and business conduct-related regulatory risks.

Local business practices in jurisdictions in which we operate, and particularly in emerging markets, may be inconsistent with international regulatory requirements, such as anti-corruption and anti-bribery laws and regulations, to which we are subject. It is possible that, notwithstanding our strict policies and in violation of our instructions, employees of ours, subcontractors, agents or business partners may violate such legal and regulatory requirements, which may expose us to criminal or civil enforcement actions. If we fail to comply with or effectively enforce such legal and regulatory requirements, our business and reputation may be harmed, and we might be exposed to civil and criminal penalties or sanctions.

An industry downturn, reduction in our customers' profitability due to increased regulation or new mobile services requirements, may cause operators' investments in networks to slow, be delayed or stop, which could harm our business.

We are exposed to changing network models that affect operator spending on infrastructure as well as trends in investment cycles of telecom operators and other service providers. The changes include: (i) further expansion of coverage; expansion out of metro, as well as other urban and suburban areas to rural areas; (ii) densification and optimization of the 4G networks to provide faster speeds; (iii) Introduction of 5G services; and (iv) 2G and/or 3G networks shutdown, which is expected to take place within the next several years and designed to free spectrum for the delivery of 5G services.

The proliferation of strategic options for service providers, as outlined above, coupled with uncertain development path and clarity as to the future standards and mass-market use cases, may cause service providers to prolong evaluations of services and network strategies, resulting in slower and smaller budget spent in the next several years, which may negatively affect our business. In addition, the intensification of use of "over-the-top services" - which make use of the operators' network to deliver rich content to users but do not generate revenue to operators - is causing operators to lose a substantial portion of their potential revenues. In addition, changes in regulatory requirements in certain jurisdictions around the world are allowing smaller operators to enter the market, which may also reduce our customers' pricing to their end-users, further causing them to lose revenues. This has made operators more careful in their spending on infrastructure upgrades and buildouts.

As a result, operators are looking for more cost-efficient solutions and network architectures, which will allow them to break the linearity of cost, coverage, capacity and costs of service delivery through more efficient use of existing infrastructure and assets. If operators fail to monetize new services, fail to introduce new business models or experience a decline in operator revenues or profitability, their willingness or ability to invest further in their network systems may decrease, which will reduce their demand for our products and services and may have an adverse effect on our business, operating results and financial condition.

Increased breaches of network or information technology security along with changes in privacy and data protection laws could have an adverse effect on our business.

Cyber-attacks or other breaches of network or IT security may cause equipment failures or disrupt our systems and operations. We may be subject to attempts to breach the security of our networks and IT infrastructure through cyber-attacks, malware, computer viruses and other means of unauthorized access. While we maintain insurance coverage for some of these events, we cannot be certain that our coverage will be adequate for liabilities actually incurred. While we take cybersecurity measures and maintain redundancy and disaster recovery practices for our critical services, we cannot assure you that our cybersecurity measures and technology will adequately protect us from these and other risks. Furthermore, our inability to operate our facilities as a result of such events, even for a limited period of time, may result in significant expenses or loss of market share to our competitors.

Maintaining the security of our products, computers and networks is a critical issue for us and our customers. Therefore, each year we invest additional resources and technologies to better protect our assets. However, security researchers, criminal hackers and other third parties regularly develop new techniques to penetrate computer and network security measures. In addition, hackers also develop and deploy viruses, worms, Trojan horses and other malicious software programs, some of which may be specifically designed to attack our products, systems, computers or networks. Moreover, due to COVID-19, significant number of our employees have moved to work from their homes and remotely access our IT networks. Such remote working mode creates the risk of attacking the end-point user stations, connection channels and gateways. We have seen a significant increase of cyberattacks on enterprises and individuals in recent years and we assume that we shall further be exposed to such threats going forward. In addition, our and our vendors' and service providers' IT systems are increasingly being moved to or based cloud platforms such as IaaS (Infrastructure as a Service) and SaaS (Software as a Service) IT solutions. The cloud-based arena poses risks of attack on and from the end-point user stations, connection channels and gateways as well as the IaaS and SaaS infrastructures of our service providers. Additionally, external parties may attempt to fraudulently induce our employees or users of our products to disclose sensitive information in order to gain access to our data or our customers' data. These potential breaches of our security measures and the accidental loss, inadvertent disclosure or unauthorized dissemination of proprietary information or sensitive, personal or confidential data about us, our employees or our customers, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose us, our employees, our customers or the individuals affected, to a risk of loss or misuse of this information, result in litigation and potential liability or fines for us, damage to our brand and reputation or otherwise harm our business.

In addition, a failure to protect the privacy of customer or employee confidential and/or personal data against breaches of network or IT security could result in monetary liabilities and damage to our reputation. The regulatory framework for data and privacy protection issues is rapidly evolving worldwide. As such, the European Union adopted the General Data Protection Regulation ("GDPR"), which imposes stricter obligations and provides for greater penalties for noncompliance. We may be required to incur significant costs to comply with such data and privacy protection laws, as applicable to our company, or else face an adverse effect on our business prospects and/or financial position. These laws and regulations constantly evolve and remain subject to significant change. In addition, the application and interpretation of these laws and regulations are often uncertain. New privacy laws add additional complexity, requirements, restrictions and potential legal risk, require additional investment in resources to compliance programs, and could result in increased compliance costs and/or changes in business practices and policies.

Cyber- attacks on our customers' networks involving our products could have an adverse effect on our business.

Maintaining the security of our products which are installed with our customers is a critical issue for us, therefore each year we invest additional resources and technologies to better protect our assets. However, security researchers, criminal hackers and other third parties regularly develop new techniques to penetrate computer and network security measures. Cyber-attacks, or other breaches of security on our customers' networks, may be initiated at any network location or device including initiation through our products. Although we maintain high level of cyber-security aware development processes, we cannot assure that such attacks, or other breaches of security through our products, will fail and therefore may negatively affect our customers' business. Moreover, criminal hackers or hackers associated with national governments, may target a customer of ours or even try to get access to a wider group of the communication network users while devoting immense resources for long-term access to industry, economy or critical infrastructure users, gather intelligence and develop the means to disable their systems, which attacks are hard to detect, prevent and illuminate. Such attacks could be highly sophisticated, such as slipping malware and Trojan horses and worms into software updates or systematically search for vulnerabilities in our products or in the components we use even before it supplies to us. While we maintain insurance coverage for some of these events, we cannot be certain that our coverage will be adequate for liabilities actually incurred. In addition, these events could also result in damage to our reputation which will further negatively impact our business.

Unauthorized use or behavior on part of our customers' employees or taking insufficient cybersecurity measures by certain customers, could result with data leaks and penetration to our systems that are located or installed in its network. In addition, the shift to software solutions coupled with requirement to move data to cloud-based and open-source environments impose enhanced cybersecurity challenges that can make our products and services more vulnerable to cyber-attacks.

These potential breaches of our security measures could expose our customers to network failures or other related risks, result in litigation and potential liability or fines for us, damage to our brand and reputation or otherwise harm our business.

We cannot assure you that we will be able to maintain profitability or continue to have positive operating cash flows.

In the past, we have incurred significant losses and a negative cash flow from operations. Throughout the years 2015 to 2018 we were profitable and recognized positive net income and generated cash flow from operating activities, but in 2020 we were exposed to COVID-19 disruptions and suffered a reduction in our net income and recognized a net loss of \$17.1 million and generated positive cash flow from operating activities of \$17.2 million and in 2019 we suffered a reduction in our net income and recognized a net loss of \$2.3 million and generated negative cash flow from operating activities of \$12.9 million. There is no assurance that we will be able to improve such results, which may require the implementation of additional cost reduction measures. Our failure to maintain profitability or to continue to have positive operating cash flows may impact our ability to compete in the market for the short and long term and may impair our financial condition.

Consolidation within our customer base could harm our business.

The increasing trend towards mergers in the telecommunications industry, such as the merger of T-Mobile and Sprint in the United States, has resulted in the consolidation of our current and potential customer base. In situations where an existing customer consolidates with another industry participant, which uses a competitor's products, our sales to that existing customer could be reduced or eliminated completely to the extent that the consolidated entity decides to adopt the competing products. Furthermore, during the interim period commencing the announcement until the actual closing or failure to close under such transaction, the parties to the merger or any of them might suspend, delay or cancel new engagements with us or procurement of our products, even if the merger shall not be consummated. Further, consolidation of our customer base could result in purchasing decision delays as consolidating customers integrate their operations and could generally reduce our opportunities to win new customers, to the extent that the number of the existing or potential customers decreases. Moreover, some of our customers may agree to share networks, resulting in a decreased requirement for network equipment and associated services, and thus a decrease in the overall size of the market. Some network operators share parts of their network infrastructure through cooperation agreements rather than legal consolidations, which may adversely affect demand for network equipment and could harm our business and results of operations.

Our failure to establish and maintain effective internal control over financial reporting could result in material misstatements in our financial statements or a failure to meet our reporting obligations. This may expose us to fines and damages and cause investors to lose confidence in our reported financial information, which could result in the trading price of our shares to decline.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2020, using the criteria established in “Internal Control - Integrated Framework” set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Based on our assessment under that framework and the criteria established therein, our management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2020 in providing reasonable assurance regarding the reliability of the Company’s financial reporting.

However, if we conclude in the future that our internal controls over financial reporting are not effective, we may fail to meet our future reporting obligations on a timely basis, our financial statements may contain material misstatements, our operating results may be negatively impacted, and we may be subject to litigation and regulatory actions, causing investor perceptions to be adversely affected and potentially resulting in a decline in the market price of our shares. Even if we conclude that our internal controls over financial reporting are adequate, any internal control or procedure, no matter how well designed and operated, can only provide reasonable assurance of achieving desired control objectives and cannot prevent all mistakes or intentional misconduct or fraud.

We are subject to complex and evolving regulatory requirements that may be difficult and expensive to comply with and that could adversely impact our business, results of operations and financial condition.

Our business and operations are subject to regulatory requirements in Israel and may be subject to additional regulatory requirements in other jurisdictions where we operate or where our subsidiaries of offices are located, including, among other things, with respect to government contracts, export controls, trade sanctions, labor, tax, anti-bribery, anti-corruption, and data privacy and protection. Compliance with these regulatory requirements may be onerous, time-consuming, and expensive, especially where these requirements vary from jurisdiction to jurisdiction or where the jurisdictional reach of certain requirements is not clearly defined or seeks to reach across national borders. Regulatory requirements in one jurisdiction may make it difficult or impossible to do business in another jurisdiction. Moreover, the cross-border nature of our business operations may trigger not only a responsibility to comply with Israeli trade compliance legislation but also a responsibility to comply with certain applicable foreign trade control regulations. Certain such requirements may also vary from the jurisdiction in which we operate to jurisdictions in which our suppliers, customers or resellers are operating. If we or our suppliers fail to obtain any required export licenses, or where existing licenses are revoked or become subject to export restrictions, our ability to manufacture, market and sell our products and services could be adversely affected. Additionally, we may be limited in our ability to transfer or outsource certain aspects of our business to certain jurisdictions, and may be limited in our ability to undertake research, development, or sales activities in certain jurisdictions, or we may be unsuccessful in obtaining permits, licenses or other authorizations required to operate our business, such as for the marketing or sale or import or export of products, solutions and services, which may adversely affect our business, operations and results. We rely on a global supply chain and on certain marketing channels that may be similarly affected by these regulatory requirements. We cannot assure you that despite our efforts we shall be able to successfully or effectively assure that all of our suppliers, agent and resellers will adhere, or will succeed in making sure that their suppliers or customers adhere, the regulatory requirements flown down to them. Further, these regulatory requirements are subject to change and governments around the world are adopting a growing number of compliance and enforcement initiatives. Violations of applicable laws or regulations, including by our officers, employees, contractors or agents, may harm our reputation and deter governments and governmental agencies and other existing or potential customers or partners from purchasing our solutions. Furthermore, non-compliance with applicable laws or regulations could result in fines, damages, civil penalties, or criminal penalties against us, our officers or our employees, restrictions on the conduct of our business, and damage to our reputation. While we make efforts to comply with such regulatory requirements, we cannot assure you that we will be fully successful in our efforts, or that that regulatory changes will not negatively affect our ability to develop, manufacture and sell the products, solutions and services we offer.

Due to inaccurate forecasts or business changes, we may be exposed to inventory-related losses on inventory purchased by our contract manufacturers and other suppliers, or to increased expenses should unexpected production ramp up be required. In addition, part of our inventory may be written off, which would increase our cost of revenues.

Our contract manufacturers and other suppliers are required to purchase inventory based on manufacturing projections we provide to them. If the actual orders from our customers are lower than projected, or the mix of products ordered changes, or if we decide to change our product line and/or our product support strategy, our contract manufacturers or other suppliers will have excess inventory of raw materials or finished products, which we would typically be required to purchase, thus incurring additional costs and our gross profit and results of operations could be adversely affected. In addition, our inventory levels may be too high, and inventory may become obsolete or over-stated on our balance sheet. This would require us to write off inventory, which could adversely affect our gross profit and results of operations.

We require our contract manufacturers and other suppliers from time to time, to purchase more inventory than is immediately required and with respect to our contract manufacturers, to partially assemble components, in order to shorten our delivery time in case of an increase in demand for our products. In the absence of such increased demand, we may need to make advance payments, compensate our contract manufacturers or other suppliers, or even buy the redundant inventory, as needed. We also may purchase components or raw materials from time to time for use by our contract manufacturers in the manufacturing of our products. This may cause additional write offs and may have a negative impact on our results of operations and cash flow.

Alternatively, if we underestimate our requirements and our actual orders from customers are significantly larger than our planned forecast, we may be required to accelerate the production and purchase of supplies, which may result in additional costs of buying components at less attractive prices, paying expediting fees and excess shipment costs, overtime and other manufacturing expenses. As a result, our gross margins and results of operations could be adversely affected.

Inventory of raw materials, work in-process or finished products located either at our warehouses or our customers' sites as part of the network build-up may accumulate in the future, and we may encounter losses due to a variety of factors, including:

- new generations of products replacing older ones, including changes in products because of technological advances and cost reduction measures; and
- the need of our contract manufacturers to order raw materials that have long lead times and our inability to estimate exact amounts and types of items thus needed, especially regarding the frequencies in which the final products ordered will operate.

Further, our inventory of finished products located either at our warehouse or our customers' sites as part of a network build-up may accumulate if a customer were to cancel an order or refuse to physically accept delivery of our products, or in rollout projects, which include acceptance tests, refuse to accept the network. The rate of accumulation may increase in a period of economic downturn.

Our sales cycles in connection with competitive bids or to prospective customers are lengthy.

It typically takes from three to twelve months after we first begin discussions with a prospective customer, before we receive an order from that customer, if an order is received at all. In some instances, we participate in competitive bids, in tenders issued by our customers or prospective customers, and these tender processes can continue for many months before a decision is made by the customer. In addition, even after the initial decision is made, there may be a lengthy testing and integration phase or contract negotiation phase before a final decision to purchase is made. In some cases, even if we have signed a contract and our products were tested and approved for usage, it could take a significant amount of time until the customer places purchase orders, if at all. As a result, we are required to devote a substantial amount of time and resources to secure sales. In addition, the lengthy sales cycle results in greater uncertainty with respect to any particular sale, as events that impact customers' decisions occur during such cycle and in turn, increase the difficulty of forecasting our results of operations.

If we fail to obtain regulatory approval for our products, or if sufficient radio frequency spectrum is not allocated for use by our products, our ability to market our products may be restricted.

Generally, our products must conform to a variety of regulatory requirements and international treaties established to avoid interference among users of transmission frequencies and to permit interconnection of telecommunications equipment. Any delays in compliance with respect to our future products could delay the introduction of those products. Also, these regulatory requirements may change from time to time, which could affect the design and marketing of our products as well as the competition we face from other suppliers' products, which may not be affected as much from such changes. Delays in allocation of new spectrum for use with wireless hauling communications, such as the E, V, D and W bands in various countries, at prices which are competitive for our customers, may also adversely affect the marketing and sales of our products.

In addition, in most jurisdictions in which we operate, users of our products are generally required to either have a license to operate and provide communications services in the applicable radio frequency or must acquire the right to do so from another license holder. Consequently, our ability to market our products is affected by the allocation of the radio frequency spectrum by governmental authorities, which may be by auction or other regulatory selection. These governmental authorities may not allocate sufficient radio frequency spectrum for use by our products. We may not be successful in obtaining regulatory approval for our products from these authorities and as we develop new products either our products or some of the regulations will need to change to take full advantage of the new product capabilities in some geographies. Historically, in many developed countries, the lack of available radio frequency spectrum has inhibited the growth of wireless telecommunications networks. If sufficient radio spectrum is not allocated for use by our products, our ability to market our products may be restricted, which would have a materially adverse effect on our business, financial condition and results of operations. Additionally, regulatory decisions allocating spectrum for use in wireless hauling at frequencies used by our competitors' products, could increase the competition we face. In addition, the 5G rollout could be contingent upon the allocation of the radio frequency spectrum by governmental authorities which could cause a delay in the ramp up of those activities.

Other areas of regulation and governmental restrictions, including tariffs on imports and technology controls on exports or regulations related to licensing and allocation processes, could adversely affect our operations and financial results.

We are subject to various regulations due to our international wireless hauling operations. If we fail to comply with these regulations, we could face liabilities that could materially impact our business, results of operations and financial condition.

Due to the nature of our global operations, we must comply with certain international and domestic laws, regulations and restrictions, which may expose our business to risks including the following:

- Our business is subject to numerous laws and regulations designed to protect the environment, including with respect to discharge management of hazardous substances. Although we believe that we comply with these requirements and that such compliance does not have a material adverse effect on our results of operations, financial condition or cash flows, the failure to comply with current or future environmental requirements could expose the Company to criminal, civil and administrative charges. Due to the nature of our business and environmental risks, we cannot provide assurance that any such material liability will not arise in the future.
- Our wireless communications products emit electromagnetic radiation. While we are currently unaware of any negative effects associated with our products, there has been publicity regarding the potentially negative direct and indirect health and safety effects of electromagnetic emissions from wireless telephones and other wireless equipment sources, including allegations that these emissions may cause cancer. Health and safety issues related to our products may arise that could lead to litigation or other actions against us or to additional regulation of our products, and we may be required to modify our technology without the ability to do so. Even if these concerns prove to be baseless, the resulting negative publicity could affect our ability to market these products and, in turn, could harm our business and results of operations. Claims against other wireless equipment suppliers or wireless service providers could adversely affect the demand for our hauling solutions.
- The regulatory framework for data protection and privacy issues is rapidly evolving worldwide and is likely to continue developing in the foreseeable future. As such, in May 2016, the European Union adopted the General Data Protection Regulation ("GDPR"), fully enforceable as of May 25, 2018, which imposes stricter data protection obligations and provides for greater penalties for noncompliance. We may be required to incur significant costs to comply with such data and privacy protection laws, rules and regulations, as applicable upon our Company. Any inability to adequately address these privacy and data protection concerns or to comply with the respective applicable laws, rules and regulations could have an adverse effect on our business prospects, results of operations and/or financial position.

Our products are used in critical communications networks, which may subject us to significant liability claims.

Since our products are used in critical communications networks, we may be subject to significant liability claims if our products do not work properly. The terms of agreements with our customers do not always provide sufficient protection from liability claims. In addition, any insurance policies we have may not adequately cover our exposure with respect to such claims. We warrant to our current customers that our products will operate in accordance with our product specifications, but if our products fail to conform to these specifications, our customers could require us to remedy the failure or could assert claims for damages. Liability claims could require us to spend significant time and money in litigation or to pay significant damages. Any such claims, successful or not, would be costly and time-consuming to defend, and could divert management's attention and seriously damage our reputation and our business.

We could be adversely affected by our failure to comply with the covenants in our credit agreement or by the failure of any bank to provide us with credit under committed credit facilities.

We have a committed credit facility available for our use from a syndicate of several banks. Our credit agreement contains financial and other covenants. Any failure to comply with the covenants, including due to poor financial performance, may constitute a default under the credit facility, which may have a material adverse effect on our financial condition. In addition, the payment may be accelerated, and the credit facility may be cancelled upon an event, in which a current or future shareholder acquires control (as defined under the Israeli Securities Law) of us. For more information, please refer to Item 5: "OPERATING AND FINANCIAL REVIEW AND PROSPECTS; Liquidity and Capital Resources."

In addition, the credit facility is provided by the syndication with each bank agreeing severally (and not jointly) to make its agreed portion of the credit loans to us. If one or more of the banks providing the committed credit facility were to default on its obligation to fund its commitment, the portion of the committed facility provided by such defaulting bank would not be available to us.

In the event that the credit facility is terminated in accordance with its terms, including due to breach of covenants by us, and we shall not be able to secure alternative financing, we could experience a distressed cash flow challenges that could harm our business operations and prospects, results of operations, cash flow and financial position.

If we are unable to protect our intellectual property rights, our competitive position may be harmed.

Our ability to compete will depend, in part, on our ability to obtain and enforce intellectual property protection for our technology internationally. We currently rely upon a combination of trade secret, patent, trademark and copyright laws, as well as contractual rights, to protect our intellectual property. However, as our patent portfolio may not be as extensive as those of our competitors, we may have limited ability to assert any patent rights in negotiations with, or in counterclaims against, competitors who assert intellectual property rights against us.

We also enter into confidentiality, non-competition and invention assignment agreements with our employees and contractors engaged in our research and development activities, as well as non-disclosure agreements with our suppliers and certain customers so as to limit access to and disclosure of our proprietary information. We cannot assure you that any steps taken by us will be adequate to deter misappropriation or impede independent third-party development of similar technologies. Moreover, under current law, we may not be able to enforce the non-competition agreements with our employees to their fullest extent.

We cannot assure you that the protection provided for our intellectual property by the laws and courts of foreign nations will be substantially similar to the remedies available under U.S. law. Furthermore, we cannot assure you that third parties will not assert infringement claims against us based on foreign intellectual property rights and laws that are different from those established in the United States. Any such failure or inability to obtain or maintain adequate protection of our intellectual property rights, for any reason, could have a material adverse effect on our business, results of operations and financial condition.

Moreover, in an effort to further grow our business, we may also sell our innovative Systems-on-Chip (SoC), which we use within our products, to some of our larger competitors, with full or limited access to our technology capabilities, over which they may design products that more effectively compete with our own.

Defending against intellectual property infringement claims could be expensive and could disrupt our business.

The wireless equipment industry is characterized by vigorous protection and pursuit of intellectual property rights, which has resulted in often protracted and expensive litigation. We have been exposed to infringement allegations in the past, and we may in the future be notified that we or our vendors, allegedly infringed certain patent or other intellectual property rights of others. Any such litigation or claim could result in substantial costs and diversion of resources. In the event of an adverse result of any such litigation, we could be required to pay substantial damages (including potentially punitive damages and attorney's fees should a court find such infringement willful), or to cease the use and licensing of allegedly infringing technology and the sale of allegedly infringing products (including those we purchase from third parties). We may be forced to expend significant resources to develop non-infringing technology, obtain licenses for the infringing technology or replace infringing third party equipment. We cannot assure you that we would be successful in developing such non-infringing technology, that any license for the infringing technology would be available to us on commercially reasonable terms, if at all, or that we would be able to find a suitable substitute for infringing third party equipment.

We occasionally use Open Source codes during our development process. An unintentional breach of Open Source licenses might compel us to publish certain confidential and proprietary codes, incur damages, and result with intellectual property infringement claims that could be expensive and could disrupt our business.

We occasionally use open source software component under open source licenses. As certain open source copyright licenses may be categorized as "copyleft licenses" that place certain requirements and restrictions on users, we maintain a process to assure the use of permissive licenses that guarantee the freedom to use, modify and redistribute, and creating proprietary derivative works, in order to avoid any limitations on our IPs and exposure of confidential proprietary software. Nonetheless, if we shall not correctly monitor and manage those licenses, fail to maintain their terms or otherwise fail in identifying limited open source codes, we might be subject to third party copyright and to reciprocity obligation requiring us to make our code open for use by others as well. Such claims may harm our development efforts and competitive advantage and expose us to copyright infringement claims that could be expensive and could disrupt our business.

If we fail to attract and retain qualified personnel, our business, operations and product development efforts may be materially adversely affected.

Our products require sophisticated research and development, marketing and sales, and technical customer support. Our success depends on our ability to attract, train and retain qualified personnel in all these professional areas while also taking into consideration varying geographical needs and cultures. We compete with other companies for personnel in all of these areas, both in terms of profession and geography, and we may not be able to hire sufficient personnel to achieve our goals or support the anticipated growth in our business. The market for the highly-trained personnel we require globally is competitive, due to the limited number of people available with the necessary technical skills and understanding of our products and technology. If we fail to attract and retain qualified personnel due to compensation or other factors, our business, operations and product development efforts would suffer. As the demand for qualified and highly skilled personnel is on constant demand, our ability to retain existing "talents" and recruit new ones is becoming more challenging. Consequently, we may have to face with increasing employment costs for existing and new personnel in professions characterized with high demand. Loss of senior level "talents" may cause delays in our development efforts as well as shortage in knowhow and capabilities which cannot always immediately mitigated.

Merger and acquisition activities expose us to risks and liabilities, which could also result in integration problems and adversely affect our business.

We continue to explore potential merger and acquisition opportunities within our wireless hauling market or as a diversification effort in order to create a growth engine and implement a growth strategy. In addition, we also explore merger and acquisition opportunities aimed at obtaining technological improvement of our products, adding new technologies to our products and to diversify our business. However, we are unable to predict whether or when any prospective deals will be completed.

In addition, these strategic transactions involve numerous risks, which can jeopardize or even eliminate the benefits entailed in such transactions, such as:

- we may not be able to discover, or the target company may fail to provide us with, all relevant information and documents in relation to the transaction, which could lead to a failure to achieve the objectives of acquisition and to a substantial loss;
- we may fail to reveal that the due diligence materials and documents provided contain untrue statements of material facts or omit to state a material fact necessary to make the statements therein not misleading, hence fail to achieve the objectives of acquisition and suffer a substantial loss;
- we may fail to correctly assess the due diligence investigation findings, establish a correct investment thesis or establish a correct post-merger integration plan;
- the process of integrating an acquired business including, for example, the operations, systems, technologies, products, and personnel of the combined companies, particularly companies with large and widespread operations and/or complex products, may be prolonged due to unforeseen difficulties;
- the implementation of the transaction may distract and divert management's attention from the normal daily operations of our business;
- we may sustain and record significant expenditure and costs associated with outstanding transactions that either did not or will not materialize or would fail to achieve its objectives;
- there will be increased expenses associated with the transaction, and we may need to use a substantial portion of our cash resources or incur debt in order to cover such expenses; expenses which the combined revenues of the merged companies may not be sufficient to offset;
- we may generate negative cash flow as a result of such transaction, which may require fund raising that may not be available for us;
- we may incur unexpected accounting and other expenses associated with the transaction, such as tax expenses, write offs, amortization expenses related to intangible assets, restructuring costs, litigation costs or such other costs derived from the acquisition;
- the transaction may harm our business as currently conducted (for example, there may be a temporary loss of revenues, we may experience loss of current key employees, customers, resellers, vendors and other business partners or companies with whom we engage today or which relate to any acquired company);
- we may be required to issue ordinary shares as part of the transaction, which would dilute our current shareholders;
- we may need to assume material liabilities of the merged entity;
- the failure to successfully complete the integration associated with the transaction (including integrating any acquired technology into our products), which may cause new markets we were aiming for not to materialize or in which competitors may have a stronger market position; or
- we may fail to effectively obtain the technological improvement.

Failure to manage and successfully complete a strategic transaction could materially harm our business operating results and cash flow. As a result, the anticipated benefits or cost savings of such mergers and acquisitions or other restructuring activities may not be fully realized, or at all, or may take longer to realize than expected. Acquisitions involve numerous risks, any of which could harm our business, results of operations cash flow and financial condition as well as the price of our ordinary shares.

Risks Relating to Our Ordinary Shares

Holders of our ordinary shares who are U.S. residents may be required to pay additional U.S. income taxes if we are classified as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes.

There is a risk that we may be classified as a PFIC. Our treatment as a PFIC could result in a reduction in the after-tax return for U.S. holders of our ordinary shares and may cause a reduction in the value of our shares. For U.S. federal income tax purposes, we will generally be classified as a PFIC for any taxable year in which either: (1) 75% or more of our gross income is passive income, or (2) at least 50% of the average value (determined on a quarterly basis) of our total assets for the taxable year produce, or are held for the production of, passive income. Based on our analysis of our income, assets, activities and market capitalization, we do not believe that we were a PFIC for the taxable year ended December 31, 2020. However, there can be no assurance that the United States Internal Revenue Service ("IRS") will not challenge our analysis or our conclusion regarding our PFIC status. There is also a risk that we were a PFIC for one or more prior taxable years or that we will be a PFIC in future years, including 2021. If we were a PFIC during any prior years, U.S. shareholders who acquired or held our ordinary shares during such years will generally be subject to the PFIC rules. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of our future income, assets, activities and market capitalization, which are relevant to this determination. If we were determined to be a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning our ordinary shares and such U.S. holders could suffer adverse U.S. tax consequences.

For more information, please see Item 10. ADDITIONAL INFORMATION – E. Taxation - "U.S. Federal Income Tax Considerations" – "Tax Consequences if We Are a Passive Foreign Investment Company."

The price and trading volume of our ordinary shares are subject to volatility. Such volatility could limit investors' ability to sell our shares at a profit, could limit our ability to successfully raise funds and may expose us to class actions against the Company and its senior executives.

The stock market in general, and the market price of our ordinary shares in particular, are subject to fluctuation. As a result, changes in our share price and trading volumes may be unrelated to our operating performance. The price of our ordinary shares and the trading volumes in our ordinary shares have experienced volatility in the past and may continue to do so in the future, which may make it difficult for investors to predict the value of their investment, to sell shares at a profit at any given time, or to plan purchases and sales in advance. In the two-year period ended December 31, 2020, the price of our ordinary shares has ranged from a high of \$4.91 per share to a low of \$0.99 per share. On December 31, 2020 and 2019, the closing prices of our ordinary shares were \$2.78 per share and \$2.10 per share, respectively. A variety of factors may affect the market price and trading volume of our ordinary shares, including:

- announcements of technological innovations or new commercial products by us or by our competitors;
- competitors' positions and other events related to our market;
- changes in the Company's estimations regarding forward looking statements and/or announcement of actual results that vary significantly from such estimations;
- the announcement of corporate transactions, merger and acquisition activities or other similar events by companies in our field or industry;
- changes and developments effecting our field or industry;
- period to period fluctuations in our results of operations;
- changes in financial estimates by securities analysts;

- our earnings releases and the earnings releases of our competitors;
- our ability to show and accurately predict revenues;
- our need to raise additional funds and the success or failure thereof;
- other announcements, whether by the Company or others, referring to the Company's financial condition, results of operations and changes in strategy;
- changes in senior management or the board of directors;
- the general state of the securities markets (with a particular emphasis on the technology and Israeli sectors thereof);
- the general state of the credit markets, the volatility of which could have an adverse effect on our investments;
- developments concerning material proprietary rights, including material patents;
- whether we or our competitors receive or are denied regulatory approvals; and
- global macroeconomic developments, including in connection with the COVID-19 outbreak.

Many of these factors are out of our control, and we believe that period-to-period comparisons of our financial results will not necessarily be indicative of our future performance.

All these factors and any corresponding price fluctuations may materially and adversely affect the market price of our ordinary shares and may result in substantial losses to our investors.

In addition to the volatility of the market price of our shares, the stock market in general and the market for technology companies in particular, has been highly volatile and at times thinly traded. These broad market and industry factors may seriously harm the market price of our ordinary shares, regardless of our operating performance. Investors may not be able to resell their shares following periods of volatility.

Moreover, the market prices of equity securities of companies that have a significant presence in Israel may also be affected by the changing security situation in the Middle East and particularly in Israel. As a result, these companies may experience volatility in their share prices and/or difficulties in raising additional funds required to effectively operate and grow their businesses. Thus, market and industry-wide fluctuations and political, economic and military conditions in the Middle East may adversely affect the trading price of our ordinary shares, regardless of our actual operating performance.

Further, as a result of the volatility of our stock price, we could be subject, and are currently subject, to securities litigation, which could result in substantial costs and divert management's attention and Company resources from our business. On January 6, 2015, the Company was served with a motion to approve a purported class action, naming the Company, its CEO and its directors as defendants, which was filed with the District Court of Tel-Aviv, was based on Israeli law and alleges breaches of duties by making false and misleading statements in the Company's SEC filings and public statements during the period between July and October 2014. The plaintiff seeks specified compensatory damages in a sum of up to \$75,000,000, as well as attorneys' fees and costs. Interim proceedings were held with respect to the application of the US Securities Act of 1933 and the Securities Exchange Act of 1934, as amended, and the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995, following a judgment issued by the Israeli Supreme Court stating that Israeli companies whose shares are dually traded in Israel and in certain foreign stock exchange, will be subject to the listing rules in the foreign jurisdiction. To date, the parties await a decision in those proceedings. (see below in Item 8. "FINANCIAL INFORMATION" – Legal Proceedings").

If we sell ordinary shares in future financings, shareholders may experience immediate dilution and, as a result, our share price may decline.

In order to raise additional capital, we may at any time offer additional ordinary shares or other securities convertible into or exchangeable for our ordinary shares at prices that may not be the same as the price paid for our ordinary shares by our shareholders. The price per share at which we sell additional ordinary shares, or securities convertible or exchangeable into ordinary shares, in future transactions may be higher or lower than the price per share paid by our existing shareholders. If we issue ordinary shares or securities convertible into ordinary shares, our shareholders would experience additional dilution and, as a result, our share price may decline.

In addition, as opportunities present themselves, we may enter into financing or similar arrangements in the future, including the issuance of debt or equity securities with or without additional securities convertible or exchangeable into ordinary shares. Whether or not we issue additional shares at a discount, any issuance of ordinary shares will, and any issuance of other equity securities may, result in additional dilution of the percentage ownership of our shareholders and could cause our share price to decline. New investors could also gain rights, preference and privileges senior to those of our shareholders, which could cause the price of our ordinary shares to decline. Debt securities may also contain covenants that restrict our operational flexibility or impose liens or other restrictions on our assets, which could also cause the price of our ordinary shares to decline.

Risks Relating to Operations in Israel

Conditions in the Middle East and in Israel may adversely affect our operations.

Our headquarters, a substantial part of our research and development facilities and some of our contract manufacturers' facilities are located in Israel. Accordingly, we are directly influenced by the political, economic and military conditions affecting Israel. Specifically, we could be adversely affected by:

- hostilities involving Israel;
- the interruption or curtailment of trade between Israel and its present trading partners;
- a downturn in the economic or financial condition of Israel; and
- a full or partial mobilization of the reserve forces of the Israeli army.

Since its establishment in 1948, Israel has been subject to a number of armed conflicts that have taken place between it and its Middle Eastern neighbors. While Israel has entered into peace agreements with Egypt, Jordan, UAE, Bahrain, Morocco and Sudan, it has no peace arrangements with any other neighboring or other Arab countries.

Further, all efforts to improve Israel's relationship with the Palestinians have failed to result in a peaceful solution, and there have been numerous periods of hostility as well as civil insurrection of Palestinians in the West Bank and the Gaza Strip in recent years.

Israel is engaged, from time to time, in armed conflicts with Hamas (a militia group and political party controlling the Gaza Strip). These conflicts have involved missile strikes against civilian targets in the south and center parts of Israel.

Over the years, this state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel.

In addition, relations between Israel and Iran continue to be hostile, due to the fact that Iran is perceived by Israel as sponsor of Hamas and Hezbollah (a Shia Islamist political party and militant group based in Lebanon), maintains a military presence in Syria, and is viewed as a strategic threat to Israel in light of its nuclear program. The assassinations of Iran's senior generals Qassim Soleimani by the U.S. military and Mohsen Farichasde which to Iran belief is associated to Israel, has contributed to the tension in the region and further intensified the hostility between Iran and Israel and between Israel and Hezbollah, which is positioned alongside Israel's northern border.

All of the above raise a concern as to the stability in the region, which may affect the political and security situation in Israel and therefore could adversely affect our business, financial condition and results of operations.

Furthermore, the continued conflict with the Palestinians is disrupting some of Israel's trading activities. Certain Muslim countries, as well as certain companies and organizations around the world, continue to participate in a boycott of Israeli brands and others doing business with Israel and Israeli companies. The boycott, restrictive laws, policies or practices directed towards Israel or Israeli businesses could, individually or in the aggregate, have a material adverse effect on our business in the future, for example by way of sales opportunities that we could not pursue or from which we will be precluded. In addition, should the BDS Movement, the movement for boycotting, divesting and sanctioning Israel and Israeli institutions (including universities) and products become increasingly influential in the United States and Europe, this may also adversely affect our business and financial condition. Further deterioration of Israel's relations with the Palestinians or countries in the Middle East could expand the disruption of international trading activities in Israel, may materially and negatively affect our business conditions, could harm our results of operations, and adversely affect the Company's share price.

Our business may also be affected by the obligation of personnel to perform military service. Our employees who are Israeli citizens are generally subject to a periodical obligation to perform reserve military service, until they reach the age of 40 (or older, for reservists with certain occupations). During times of a military conflict, these employees may be called to active duty for longer periods of time. In response to the increase in violence and terrorist activity in the past years, there have been periods of significant call-ups for military reservists and it is possible that there will be further military reserve duty call-ups in the future. In case of further regional instability such employees, who may include one or more of our key employees, may be absent for extended periods of time which may materially adversely affect our business.

Furthermore, our Company's insurance does not cover loss arising out of events related to the security situation in the Middle East. While the Israeli government generally covers the reinstatement value of direct damages caused by acts of war or terror attacks, we cannot be certain that such coverage will be maintained.

We can give no assurance that the political, economic and security situation in Israel will not have a material adverse effect on our business in the future.

We received grants from the IIA that may require us to pay royalties and restrict our ability to transfer technologies or know-how outside of Israel.

In prior years we have received government grants from the Israel Innovation Authority (the "IIA") for the financing of a significant portion of our research and development expenditures in Israel. Unless otherwise agreed by IIA, we must nevertheless continue to comply with the requirements of the Israeli Law for the Encouragement of Industrial Research and Development, 1984 and regulations promulgated thereunder (the "**R&D Law**") with respect to technologies that were developed using such grants (the "**Financed Know-How**"), including an obligation to repay such grants from consideration received from sales of products which are based on the Financed Know-How, if and when such sales occur and if applicable in accordance with the grant plan or under the agreements entered into between the Company and IIA.

In accordance with certain grant plans, in addition to the obligation to pay royalties to the IIA, the R&D Law requires that products which incorporate Financed Know-How be manufactured in Israel, and prohibits the transfer of Financed Know-How and any right derived therefrom to third parties, unless otherwise approved in advance by the IIA. Such prior approval may be subject to payment of increased royalties. Although such restrictions do not apply to the export from Israel of the Company's products developed with such Financed Know-How, they may prevent us from engaging in transactions involving the sale, outsource or transfer of such Financed Know-How or of manufacturing activities with respect to any product or technology based on Financed Know-How, outside of Israel, which might otherwise be beneficial to us. Furthermore, the consideration available to our shareholders in a transaction involving the transfer outside of Israel of Financed Know-How (such as a merger or similar transaction) may be reduced by any amounts that we are required to pay to the IIA.

For more information regarding the restrictions imposed by the R&D Law and regarding grants received by us from the IIA, please see Item 4. "INFORMATION ON THE COMPANY- B. Business Overview - *The Israel Innovation Authority*."

The tax benefits to which we are currently entitled from our approved enterprise program, require us to satisfy specified conditions, which, if we fail to meet, would deny us from these benefits in the future. Further, if such tax benefits are reduced or eliminated in the future, we may be required to pay increased taxes.

The Company has certain capital investment programs that have been granted approved enterprise status by the Israeli government (the "Approved Programs"), pursuant to Israel's Law for the Encouragement of Capital Investments, 1959 (the "Encouragement Law"). When we begin to generate taxable income from these approved enterprise programs, the portion of our income derived from these programs will be tax exempt for a period of two years. The benefits available to an approved enterprise program are dependent upon the fulfillment of conditions stipulated under the Encouragement Law and in the certificates of approval or in rulings obtained from the Israeli Tax Authorities. If we fail to comply with these conditions, in whole or in part, we may be required to pay additional taxes for the period(s) in which we benefited from the tax exemption and would likely be denied these benefits in the future. The amount by which our taxes would increase will depend on the difference between the then-applicable corporate tax rate and the rate of tax, if any, that we would otherwise pay as an approved enterprise, and on the amount of any taxable income that we may earn in the future.

In addition, the Israeli government may reduce, or eliminate in the future, tax benefits available to approved enterprise programs. Our Approved Programs and the resulting tax benefits may not continue in the future at their current levels or at any level. The termination or reduction of these tax benefits would likely increase our tax liability. The amount, if any, by which our tax liability would increase will depend upon the rate of any tax increase, the amount of any tax rate benefit reduction, and the amount of any taxable income that we may earn in the future. For a description of legislation regarding "Preferred Enterprise" see Item 10. "ADDITIONAL INFORMATION".

Being a foreign private issuer exempts us from certain SEC requirements and Nasdaq Rules, which may result in less protection than is afforded to investors under rules applicable to domestic issuers.

We are a “foreign private issuer” within the meaning of rules promulgated by the SEC. As such, we are exempt from certain provisions under the Exchange Act applicable to U.S. public companies, including:

- The rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q and current reports on Form 8-K;
- The sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of securities registered under the Exchange Act, including extensive disclosure of compensation paid or payable to certain of our highly compensated executives as well as disclosure of the compensation determination process;
- The provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information; and
- The sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profit realized from any “short-swing” trading transaction (a purchase and sale, or sale and purchase, of the issuer’s equity securities within less than six months).

In addition, we are permitted to follow certain home country corporate governance practices and laws in lieu of certain Nasdaq Rules applicable to U.S. domestic issuers. For instance, we have relied on the foreign private issuer exemption with respect to shareholder approval requirements for equity-based incentive plans for our employees and the requirement to have a formal charter for our Compensation Committee. Following our home country governance practices rather than the Nasdaq Rules that would otherwise apply to a U.S. domestic issuer, may provide less protection to investors. For the list of the specific exemptions that we have chosen to adopt, please see “Item 16G. CORPORATE GOVERNANCE”.

We may lose our status as a foreign private issuer, which would increase our compliance costs and could negatively impact our operations results.

We may lose our foreign private issuer status if (a) a majority of our outstanding voting securities are either directly or indirectly owned of record by residents of the United States and (b) one or more of (i) a majority of our executive officers or directors are United States citizens or residents, (ii) more than 50% of our assets are located in the United States or (iii) our business is administered principally in the United States. In such case, we would be required to, among other things, file periodic reports and registration statements on U.S. domestic issuer forms with the SEC, which are more extensive than the forms available to a foreign private issuer, follow U.S. proxy disclosure requirements, including the requirement to disclose, under U.S. law, more detailed information about the compensation of our senior executive officers on an individual basis, modify certain of our policies to comply with accepted governance practices associated with U.S. domestic issuers and we would lose our ability to rely upon exemptions from certain corporate governance requirements on U.S. stock exchanges that are available to foreign private issuers, as described in the previous risk factor above. All of the above would cause us to incur substantial additional internal and external costs, including for outside legal and accounting support.

It may be difficult to enforce a U.S. judgment against us or our officers and directors, or to assert U.S. securities laws claims in Israel.

We are incorporated under the laws of the State of Israel. Service of process upon our directors and officers, almost all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because the majority of our assets and investments, and almost all of our directors and officers are located outside the United States, any judgment obtained in the United States against us or any of them may not be collectible within the United States.

Additionally, it may be difficult for an investor, to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws reasoning that Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear such a claim, it is not certain if Israeli law or U.S. law will be applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact by an expert witness, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel that addresses the matters described above.

Your rights and responsibilities as a shareholder will be governed by Israeli law which differs in some respects from the rights and responsibilities of shareholders of U.S. companies.

Since we are incorporated under Israeli law, the rights and responsibilities of our shareholders are governed by our Articles of Association as in effect from time to time (the “**Articles of Association**”), and Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in United States-based corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations towards the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters, such as an amendment to a company’s articles of association, an increase of a company’s authorized share capital, a merger of a company and approval of interested party transactions that require shareholder approval. A shareholder also has a general duty to refrain from discriminating against other shareholders. In addition, a controlling shareholder or a shareholder who knows that it possesses the power to determine the outcome of a shareholders’ vote or to appoint or prevent the appointment of an office holder in a company, or has another power with respect to a company, has a duty to act in fairness towards such company. Israeli law does not define the substance of this duty of fairness and there is limited case law available to assist us in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on our shareholders that are not typically imposed on shareholders of U.S. corporations.

Provisions of Israeli law may delay, prevent, or make undesirable an acquisition of all or significant portion of our shares or assets.

Israeli corporate law regulates mergers and acquisitions and requires that a tender offer be effected when certain thresholds of percentage ownership of voting power in a company are exceeded (subject to certain conditions), which may have the effect of delaying, preventing or making more difficult a merger with, or acquisition of, us. Further, Israeli tax considerations may make potential transactions undesirable to us, or to some of our shareholders, if the country of residence of such shareholder does not have a tax treaty with Israel (thus not granting relief from payment of Israeli taxes). With respect to mergers, Israeli tax law provides tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of numerous conditions, including a holding period of two years from the date of the transaction, during which certain sales and dispositions of shares of the participating companies are restricted. Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no actual disposition of the shares has occurred. See “Item 10.B. - *Mergers and Acquisitions under Israeli Law*”.

In addition, in accordance with the Restrictive Trade Practices Law, 1988, and the R&D Law, to which we are subject due to our receipt of grants from the IIA, a change in control in the Company (such as a merger or similar transaction) may be subject to certain regulatory approvals in certain circumstances. For more information regarding such required approvals please see Item 4. “INFORMATION ON THE COMPANY - B. Business Overview - *The Israel Innovation Authority*”.

In addition, as a corporation incorporated under the laws of the State of Israel, we are subject to the Israeli Economic Competition Law, 1988 and the regulations promulgated thereunder (formerly known as the Israeli Antitrust Law, 1988), under which we may be required in certain circumstances to obtain the approval of the Israel Competition Authority (formerly known as the Israel Antitrust Authority) in order to consummate a merger or a sale of all or substantially all of our assets.

These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us, or for our shareholders to elect different individuals to our Board of Directors, even if doing so would be beneficial to our shareholders, and may also limit the price that investors may be willing to pay in the future for our ordinary shares.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were incorporated under the laws of the State of Israel on July 23, 1996 as Giganet Ltd. We changed our name to Ceragon Networks Ltd. on September 6, 2000. We operate under the Israeli Companies Law, our registered office is located at 24 Raoul Wallenberg Street, Tel Aviv, Israel 6971920, and our telephone number is +972-3-543-1000. Our web address is www.ceragon.com. Information contained on our website does not constitute a part of this annual report.

Our agent for service of process in the United States is Ceragon Networks, Inc., our wholly owned U.S. subsidiary and North American headquarters, located at Overlook at Great Notch, 150 Clove Road, 9th Floor, Little Falls, NJ 07424.

B. Business Overview

We are the leading wireless hauling specialist company in terms of unit shipments and global distribution of our business, providing innovative high capacity wireless connectivity solutions to global markets across various industries, mainly wireless (mobile) networks service providers.

Wireless hauling is a means for connecting mobile network sites (e.g. cellular base stations in various architectures) to the rest of the network. It carries information to and from the cellular base stations. It is used when high-speed wireline connectivity to telecom sites (typically fiber optics) is not available or rapid development is required. According to market research, about 45% of global telecom sites are connected to the rest of the network via wireless hauling.

Ceragon's innovative technology related to the transition from Wireless SDH to Wireless IP, and the further transition to compact multi-core all-outdoor wireless backhaul solutions, assisted in positioning Ceragon as a leader in the global wireless hauling market, and we expect that it would have potentially positioned us to benefit from new wireless generation transitions such as the current 5G evolution.

In preparation for the transition from 4G to 5G technologies, we have begun planning the roll-out of new 5G-supporting products. In 2019, we introduced the market-first "disaggregated wireless hauling" architecture, which allows operators to significantly simplify 5G network deployment and maintenance, as well as reduce of capital and operating expenses. Currently, we are investing in a new chipset which incorporates 8-cores (Octa-core) in a chipset to be incorporated in products expected to be introduced in 2022.

The term 'wireless hauling' refers to various types of network connectivity signaling and network protocols which vary in speeds and include (i) backhaul - used in 4G, 5G and earlier generations of mobile networks to send data packets between the network and the base-stations and between the base-stations to other network elements, and (ii) fronthaul - used in 4G and 5G networks to send radio signal values between building blocks of the base station, which can be separated from another across geographic site locations to achieve network efficiencies in some network scenarios.

Wireless hauling offers network operators a cost-efficient alternative to wire-line connectivity between network nodes at different sites, mainly fiber optics. Support for high broadband speeds and very large numbers of devices, means that all value-added services can be supported, while the high reliability of wireless systems provide for lower maintenance costs. Because they require no trenching, wireless hauling links can also be set up much faster and at a fraction of the cost of fiber solutions. On the operator's side, this translates into an increase in operational efficiency and faster time-to-market, as well as a shorter timetable to achieving new revenue streams.

We provide wireless hauling solutions and services that enable cellular operators and other service providers to build new networks and evolve networks towards 4G and 5G services. The services provided over these networks are: voice, mobile and fixed broadband, Industrial/Machine-to-Machine (M2M), Internet of Things (IoT) connectivity, public safety and other mission critical services. We also provide our solutions for wireless backhaul to other vertical markets such as Internet service providers, public safety, utilities, oil and gas offshore drilling platforms, as well as maritime communications. Our wireless hauling solutions use microwave and millimeter-wave radio technologies to transfer large amounts of telecommunication traffic between wireless 5G, 4G, 3G and other cellular base station technologies (distributed, or centralized with dispersed remote radio heads) and the core of the service provider's network. We are also a member of industry consortiums of companies, which attempt to better define future technologies in ICT (Information and Communication Technologies) markets, such as Open Networking Foundation (ONF), Metro Ethernet Forum (MEF), European Telecommunications Standards Institute (ETSI), Telecom Infra Project (TIP) and others.

In addition to providing our solutions, we also offer our customers a comprehensive set of turn-key services, including advanced network and radio planning, site survey, solutions development, network rollout, maintenance, wireless hauling network audit and optimization, and training. To enable delivery of turn-key solutions to our customers, in addition to providing roll-out services, we have partnered with other third party providers of technologies complementary to our own. Our offering includes technologies such as: Unlicensed Point-to-Point, Private LTE, Licensed/unlicensed Point-to-Multipoint, IP/MPLS and others. This allows us to better cover our customers' end-to-end needs and increases the level of stickiness with these customers. Our services include powerful project management tools that streamline deployments of complex wireless networks, thereby reducing time and costs associated with network set-up and allowing a fast time-to-revenue. Our experienced teams can deploy hundreds of wireless hauling links every week, and our rollout project track record includes hundreds of thousands of links already installed and operational with a variety of industry-leading operators.

Designed for any network scenario, including risk-free flexible migration from current and legacy network technologies and architectures to evolving standards and network hauling scenarios, our solutions provide ultra-high speed connectivity at any distance, be it a few kilometers or tens of kilometers, and even longer, over any available spectrum (or combinations of available spectrum bands) and in any site and network architecture. Our solutions support all wireless access technologies, including 5G-NR NSA, 5G-NR SALTE, HSPA, EV-DO, CDMA, W-CDMA, WIFI and GSM as well as Tetra, P.25 and LMR for critical communications. These solutions allow wireless service providers to cost-effectively and seamlessly evolve their networks from a monolithic base-station architecture to an open RAN architecture, utilizing vertical and horizontal disaggregation, allowing them extra flexibility, scalability and efficiency, thereby meeting the increasing demand of a growing number of connections of any type for consumers and enterprises with growing needs for mobile and other multimedia services, and a growing number of machines or IoT devices such as street surveillance devices or meters.

We also provide our solutions to other non-carrier vertical markets such as oil and gas companies, public safety organizations, businesses and public institutions, broadcasters, energy utilities and others that operate their own private communications networks. Our solutions are deployed by more than 404 service providers of all sizes, as well as in hundreds of private networks, in more than approximately 155 countries.

Wireless Hauling; Short-haul, Long-haul and Small Cells Hauling

Today's cellular networks are predominantly based on 4G technologies. These networks constantly undergo expansion of coverage, densification with additional sites to cater to higher demands for speeds and to make more services available per given area. According to recent publications and as of the fourth quarter of 2020, 5G subscriptions with a 5G-capable device grew by more than 70 million during the quarter, lifting the total to above 220 million. Approximately 130 communications service providers have now launched commercial 5G services. These investments in 5G radio network infrastructure, and consequently, associated wireless hauling, are expected to gradually increase during the next several years. In order to allocate spectrum resources for 4G and 5G, some operators are shutting down their 2G and/or 3G network (a "network sunset") in order to re-allocate radio access network frequency bands to 4.5 and 5G services. These market dynamics of network expansion and densification, have resulted in higher demand for wireless hauling capacity, at increased density, accommodating sophisticated services over the network at far higher volume than available up to recent years. Such services include the many 5G use cases, which among others include enhanced mobile broadband, mission critical services, IoT & Industrial IoT (Industry 4.0, or "IIoT"), Gigabit broadband to homes, multi Gigabits services to enterprises and more.

The wireless hauling market is divided into two main market segments. The first is a market segment in which operators invest resources and efforts to select the best wireless hauling solution that will meet their wireless hauling needs, in terms of the ability to improve their business operational efficiency, services reliability and their customers' (subscribers') quality of experience. This market segment is referred to as "best-of-breed". The other market segment is characterized by operators that do not select the wireless hauling solution, since this decision is made by a network's solution provider retained by the operator. This network solution provider delivers an end-to-end solution and the equipment required to operate the entire network, including the wireless hauling equipment. Operators in this segment of the market rely on the network solution providers to choose wireless hauling as part of the full end-to-end solution while often compromising on performance and optimization of the network and other resources, as see it as a solution which does not play a primary role within the end-to-end network rollout considerations. This segment of the market is referred to as "bundled-deals".

Ceragon serves the "best-of-breed" segment of the market and specializes in a range of solutions, which to the Company's belief, provide high value for our customers including:

- Short-haul solutions, which typically provide a wireless link capacity of up to 2 Gbps per link for backhaul, and/or a link capacity of up to 20Gbps for fronthaul. These solutions are available for distances of several hundred feet to 10 miles. Short-haul links are deployed in access applications (macro cells and small cells and distributed cells) wirelessly connecting the individual base-stations or base-station element (i.e. a "central unit", a "distributed unit" or a "radio unit") towers to the core network. Short-haul solutions are also used in a range of non-carrier "vertical" applications such as state and local government, public safety, education and off-shore communication for oil and gas platforms.
- Long-haul solutions, which typically provide a capacity of up to 20 Gbps, are used in the "highways" of the telecommunication backbone network. These links are used to carry services at distances of 10 to 50 miles, and, using the right planning, configuration and equipment, can also bridge distances of 100 miles. Long-haul solutions are also used in a range of non-carrier "vertical" applications such as broadcast, state and local government, public safety, utilities and offshore communication for oil and gas platforms.

Ceragon has, on more than one occasion, been the first to introduce new products and features to the market, including the first solution for wireless transmission for evolving cellular networks, providing 155 Mbps at 38 GHz in 1996 and numerous microwave and millimeter-wave technology innovations thereafter. Since 2008, Ceragon has invested in pioneering the multicore™ technology focusing on addressing the multiple wireless hauling challenges of 4G and 5G services. This technology is at the core of Ceragon's in-house developed chipsets for wireless hauling, now in their Fourth generation, which enable Ceragon to design and offer vertically integrated solutions. This vertical integration enables Ceragon to provide higher flexibility, better performance, and improved time-to-market. With the first products based on multicore™ technology introduced to the market in 2013, Ceragon has enabled dual-core radios and far advanced capabilities, such as Line-of-Sight Multiple Input Multiple Output (LoS MIMO), which allows efficient use of spectrum where congestion of frequencies exist, Advanced Frequency Reuse (AFR), which allows massive network densification and Advanced Space Diversity, which eliminates the use of multiple antennas in various network scenarios, thereby accelerating network deployment and reducing total cost of ownership.

In 2019, Ceragon introduced the market-first "disaggregated wireless hauling" architecture, which allows operators to significantly simplify 5G network deployment and maintenance, as well as reduce capital and operating expenses, and in 2020 we secured certain 9 5G design wins with leading operators around the globe.

Ceragon is currently investing in a new chipset which incorporates 8-cores (Octa-core) in a chipset, expected to be available in 2021, offering industry-leading performance and capacity.

Industry Background

The market demand for wireless hauling is being generated primarily by cellular operators, wireless broadband service providers, businesses and public institutions that operate private networks. This market is fueled by the continuous customer growth in developing countries, and the explosion in mobile data usage in developed countries. The year 2020 brought with it a mass exodus to the online world and created an urgent need for more network capacity, pushing operators and service providers to accelerate their 5G plans. As 2021 unfolds, we find ourselves at the cusp of a global wireless generation transition – from 4G to 5G.

The main catalyst for the wireless hauling evolution has been the adoption of new mobile services across the globe. This evolution generates higher capacity and cost-efficient architectures, based on IP/Ethernet technologies in a developing set of network scenarios and architectures.

- In 4G, the fronthaul transport network connects Remote Radio Heads (RRHs) to distant centralized/cloud Baseband Units (BBUs), while backhaul connects BBUs back to 4G Evolved Packet Core (EPC). In 5G, the New Radios (NR) are connected to the BBU, which can be disaggregated into a Central Unit (CU) and a Distributed Unit (DU). The new midhaul interconnects the CU to the DU via a new, standardized 3GPP interface.
- There was a try to shift the industry with a move to open 4G fronthaul networks. While based on a Common Public Radio Interface (CPRI) specification, these fronthaul networks ended up being closed and proprietary. MNOs were forced to buy RRHs and BBUs from the same vendor and to transport fronthaul traffic over costly, and often unavailable, dark fiber due to CPRI's very high (and inefficient) capacity and stringent latency requirements. We believe that 5G technologies have the potential of changing this inefficiency.
- With help from organizations such as the operator-led O-RAN Alliance, 5G fronthaul and midhaul network interface specifications are open and defined in a structured format. This allows MNOs to purchase RUs, DUs, CUs, and the associated transport networks between them, from anyone. We believe that this presents new market opportunities for Ceragon's leading wireless hauling solutions.

Rapid subscriber and connections growth and the proliferation of advanced end devices, driven mainly by video content, have significantly increased the amount of traffic that must be carried over a cellular operator's hauling infrastructure. COVID-19 has further accelerated this trend. As a result, existing transport capacity is heavily strained, creating a bottleneck that hinders service delivery and quality. The proliferation of industrial, security and metering devices through IoT technologies, and implementation of new 5G network architectures is also expected to increase the total capacity and coverage that is needed to be transported throughout networks and put additional strain on network capacity, requiring even higher capacity wireless backhaul and fronthaul connectivity.

With the growth in adoption of 4G and the accelerated pace of adoption of 5G, which require even higher network speeds and wireless backhaul capacity, in particular, cellular operators are seeking strategies, using new technologies, which will allow further business growth, to facilitate quick and cost-efficient enablement of new services for more connected subscribers (either human or machine). Among those are Software Defined Networks (SDN) and Network Function Virtualization (NFV) technologies, which are key for network slicing:

- Approximately 130 communications service providers have already launched commercial 5G services. When fully deployed, 5G networks are expected to serve 1,000-fold increase in connections compared to 4G networks. Service rates will range up to 1Gbps. The need for supporting 5G service capacities, along with the support of large-scale deployment of IoT devices in networks, will require wireless hauling with higher capacity and scalability to support a variety of 5G use-cases.

- SDN and NFV technologies are key to the network slicing approach, which was introduced in recent years to 4G networks and is expected to grow in complexity and in adoption over 5G networks, which are expected to support a much larger set of services.

Network slicing is a network engineering model in which the physical network is providing resources to numerous virtual networks on top, whereas each virtual network delivers a specific set of performance characteristics for a specific service, or set of services, sharing common requirements. For example, a network slice that is tasked with delivering ultra-high bandwidth for mission critical multimedia services (voice and video) to law enforcement agencies, requires a different amount of network resources ensuring prioritized capacity and minimal delay variation, whereas a different network slice support video streaming service for mobile entertainment. SDN and NFV technologies are designed to support network slicing models and its implementation, for high quality subscriber experience, by simplifying service creation and orchestration through simple network traffic engineering rules and tools, as well as enable end-to-end network resources optimization across all network domains, including the wireless hauling domain, for increased operational efficiency. Network resources optimization is expected to be achieved, in part, by the use of SDN technologies with wireless hauling optimization applications, which will exploit network intelligence gathered by SDN controllers within the network.

The wireless hauling domain of the network will require adaptation to these industry trends by enabling far higher capacities, with ultra-low latency for high service quality, simple service creation and optimization to cope with the influx of a thousand-fold increase in the number of services compared to 4G networks, and a high degree of wireless resources optimization (spectrum and other) that will be incorporated within the wireless hauling network infrastructure.

Cellular Operators

In order to address the strain on backhaul and fronthaul capacity, cellular operators have a number of alternatives, including leasing existing fiber lines, laying new fiber optic networks or deploying wireless solutions. Leasing existing lines requires a significant increase in operating expenses and, in some cases, requires the wireless service provider to depend on a direct competitor. Laying new fiber-optic lines is capital and labor-intensive and these lines cannot be rapidly deployed. The deployment of high capacity and ultra-high capacity point-to-point wireless links represents a scalable, flexible and cost-effective alternative for expanding backhaul and fronthaul capacity. Supporting data rates of 1 Gbps and above (backhaul) and 10Gbps and above (fronthaul) over a single radio unit, wireless hauling solutions enable cellular operators to add capacity only as required while significantly reducing upfront and ongoing backhaul and fronthaul costs.

Some of today's backhaul networks, primarily in emerging markets, still employ circuit switched (or TDM) solutions - whether T1/E1 or high-capacity SDH/SONET. These networks, originally designed to carry voice-only services, have a limited bandwidth capacity and offer a no cost-efficient scalability model. The surge in mobile data usage, fueled by anticipation and adoption of advanced releases of 4G and 5G services, drives operators to accelerate and finalize the migration of their networks to a more flexible, feature-rich and cost optimized IP network architecture. Additionally, the surge in data usage in densely populated areas drives operators to explore new network architectures that utilize a variety of small-cell technologies requiring the deployment of dense wireless hauling network in various microwave and millimeter-wave spectral bands. As operators intensify 4G services availability and transition to 5G services, all of which are IP-based wireless access technologies, they look for ways to benefit from IP technology in their hauling network while maintaining support for their primary legacy services. The progression that is expected in 4G and 5G networks rollout over the next several years, will broaden cellular operators' assessment of the growing role the wireless backhaul and fronthaul may take in their network in 2-3 years' time, as reaching the small cells with more fiber is expected to become a significant challenge, both physically and economically.

In order to ensure the success of these network strategies, as well as preparedness to broaden and 5G technologies adoption, operators require solutions that can support their legacy transport technology (TDM) while providing all the advanced IP capabilities and functionalities and the capabilities to address any 4G & 5G network architecture. Our solutions, which support any network architecture for backhaul and fronthaul, and include both all-IP as well as hybrid (IP and TDM service connectivity) products, offer operators a simple and quick network modernization plan capable of evolving with the transition to 5G services.

Wireless Broadband Service Providers

For wireless broadband service providers, which offer alternate high data access, high-capacity backhaul is essential for ensuring continuous delivery of rich media service across their high-speed data networks. If the backhaul network and its components do not satisfy the wireless broadband service providers' need for cost-effectiveness, resilience, scalability or ability to supply enough capacity, then the efficiency and productivity of the network may be seriously compromised. While both wireless and wire-line technologies can be used to build these backhaul systems, many broadband service providers opt for wireless point-to-point microwave solutions. This is due to a number of advantages of the technology including: rapid installation, support for high-capacity data traffic, scalability and lower cost-per-bit compared to wire-line alternatives.

Other Vertical Markets

Many large businesses and public institutions require private high bandwidth communication networks to connect multiple locations. These private networks are typically built using IP-based communications infrastructure. This market includes educational institutions, utility companies, oil and gas industry, broadcasters, state and local governments, public safety agencies, maritime customers and defense contractors. These customers continue to invest in their private communications networks for numerous reasons, including security concerns, the need to exercise control over network service quality and redundant network access requirements. As data traffic on these networks rises, we expect that businesses and public institutions will continue to invest in their communications infrastructure, including backhaul equipment. Like wireless service providers, customers in this market demand a highly reliable, cost-effective backhaul solution that can be easily installed and scaled to their bandwidth requirements. Approximately 20% of our business is associated with private network operators.

Wireless vs. Fiber Hauling

Though fiber-based networks can easily support the rapid growth in bandwidth demands, they carry high initial deployment costs and take longer to deploy than wireless. Certainly, where fiber is available within several hundred feet of the operator's point of presence, with ducts already in place, and when there are no regulatory issues that prohibit the connection – fiber can become the operator's preferred route. In other scenarios, high-capacity wireless connectivity using microwave and millimeter-wave technologies (wireless hauling), is significantly more cost efficient. Wireless hauling is taking a significant role in 4G network densification and is expected to take a significant role in the transition to 5G rollout as a result of ease and the speed of deployment. In fact, in most cases the return-on-investment from fiber installations can only be expected in the long term, making it hard for operators to achieve lower costs per bit and earn profits in a foreseeable future.

Wireless microwave and millimeter-wave hauling solutions on the other hand are capable of delivering high bandwidth, carrier-grade network services. Our wireless hauling solutions are suitable for all capacities, carrying multi Gbps of the operators' traffic over a single radio connection (or "link"). Unlike fiber, wireless solutions can be set up quickly and are more cost efficient on a per-bit basis from the outset. In many countries, microwave and millimeter-wave links are deployed as alternative routes to fiber, ensuring on-going communication in case of fiber-cuts and network failures, as well as enabling the deployment of small cells or distributed cells, as very often fiber is not available or too costly and time consuming to bring to where small cells are required.

Licensed vs. License-exempt Wireless Backhaul

Licensed wireless hauling: Service providers select the optimal available transmission frequency based on the rainfall intensity in the transmission area and the desired transmission range. The regulated, or licensed, microwave bands (4-42GHz) and millimeter-wave bands (71-86GHz) are allocated by government licensing authorities for high-capacity wireless transmissions. The license grants the licensee the exclusive use of that spectrum for a specific use thereby eliminating any interference issues. A licensed microwave or millimeter-wave spectrum is typically the choice of leading operators around the world because it matches the bandwidth and interference protection they require. Our licensed spectrum products operate across the entire span of the licensed microwave and millimeter-wave spectrum described herein, from 4GHz microwave to 86GHz, delivering multi Gbps per link and are scalable and versatile to meet all radio access networks, small cells, private networks and long-haul radio transmission paths requirements.

License-exempt wireless hauling: Service providers also select license-exempt spectrum in order to provide high speed connectivity to businesses, campuses (often regarded as a wireless backhaul) and serve cellular small cells with wireless backhaul connectivity, without regulatory approval for spectrum.

License exempt spectrum can be categorized into two main categories: 1) 57 – 66GHz millimeter-wave band, known as the v-band spectrum and operating at very wide channel bandwidths, up to 2,000MHz and capable of delivering 10Gbps bi-directional capacity (FDD). The use of v-band spectrum requires the existence of a line of sight between the sites, allows the achievement of high availability connectivity because of the narrow beam characteristics of the radio signal and provides the highest capacity when operating in a point-to-point communication mode. Additional V-band solutions include point-to-multipoint and mesh networks architectures which provide up to 4Gbps aggregate capacity and their primary use is for access services to end-users with limited capacity of backhaul operating within the access service spectrum (in-band backhaul); and 2) sub 6GHz license-exempt spectrum, operating at narrow channel bandwidths of up to 80MHz and delivering up to 500Mbps bi-directional capacity (FDD), typically in point-to-multipoint network architecture. The use of sub 6GHz spectrum allows for non, or near, line of sight connectivity between the sites and facilitates an economic and flexible rollout model, at the expense of achieving modest capacity, as specified above. License exempt V-band and sub 6GHz bands are more vulnerable to interference as a result of the uncoordinated use of the spectrum.

We provide a range of license-exempt solutions to provide service providers and private network owners with the solutions that best fit their service and connectivity needs; we provide high availability point-to-point multi Gbps solutions with very low latency for enterprises, campuses and small cells, operating in the license-exempt millimeter-wave V-band spectrum. For those who require modest capacity connectivity of very few hundreds of Mbps per site, we offer third-party equipment vendor solutions operating at license exempt sub 6GHz point-to-multipoint and point-to-point near/non line of sight wireless connectivity that allow them to make reasonable concessions between capacity and latency, service availability and total cost of ownership of the rollout.

Industry Trends and Developments

- Sudden and wide widespread surge in network traffic in 2020 emerging from COVID-19 pandemic continues to cause global change to the way business and individuals access information for work and leisure. The result of national lock-ins for large parts of the population brings many businesses to exercise company-wide work-from-home with massive use of video conferencing and cloud network communication. Entire families stay longer at home and extensively consume video streaming and online gaming, along with video chats with friends and relatives. The result is a sudden and sharp increase in home broadband demand, while today's home broadband networks are not designed for such usage patterns. Some countries, even developed ones, lack broadband communication networks in rural areas. As a result, service providers are required to increase network investment to match the network capabilities to the surge in broadband demand. We anticipate that the increase in network traffic which service providers are experiencing today amidst the pandemic will remain and even increase, as companies and employees adapt to broader use of telecommuting, and families adopt higher use of video calls/chats as larger portions of the world population, young and elderly alike, use highly visual remote communication tools and high volume communication transactions.
- 5G will enable operators to enhance their services portfolio with more use cases such as enhanced mobile broadband (eMBB) delivering gigabit broadband, as well as address new market segments such as IoT & IIoT and mission critical applications with URLLC (Ultra Reliable Low Latency Communications) and mMTC (Massive Machine Type Communications) services. Those services, combined with new network architectures will require higher capacity, lower latency networks and in particular higher hauling capacity, far denser macro cells and small/distributed cells grids and the implementation of network virtualization technologies and architectures, namely network slicing using SDN. Our wireless hauling solutions resolve both higher capacity, lower latency and network densification requirements with advanced capabilities, based on our multicore™ technology for microwave narrowband spectrum (up to 224Mhz) and the use of wider bands in millimeter-wave spectrum, up to 2,000MHz. Network virtualization requirements are addressed with layer 3 capabilities and SDN support.
- *Software Defined Networking (SDN)* is an emerging concept aimed at simplifying network operations and allowing network engineers and administrators to quickly respond to a fast-changing business environment. SDN delivers network architectures that transition networks from a world of task-specific dedicated network devices, to a world of optimization of network performance through network intelligence incorporated within network controllers performing control functions and network devices, which perform traffic (data-plane) transport. Our wireless hauling solutions are SDN-ready, built around a powerful software-defined engine and may be incorporated within the SDN network architecture. Our SDN architecture is envisioned to provide a set of applications that can achieve end-to-end wireless hauling network optimization by intelligently making use of the scarce network resources, such as spectrum and power consumption.

- The emergence of *distributed cells* presents hauling challenges that differ from those of traditional macro-cells. Distributed cells are used to provide connectivity and capacity in hot spots and underserved spots, as well as increase coordination between adjacent cells, leading to improved service level. They also significantly reduce the cost of cell-site equipment. This new architecture is forecasted to be present in a high percentage of advanced 5G network deployments. Our distributed-cells wireless hauling portfolio includes a variety of compact all-outdoor solutions that provide operators with optimal flexibility in meeting their unique physical, capacity, networking, and regulatory requirements.
- The introduction of a *disaggregated model* for hardware and software. This model allows better scalability, simplicity and flexibility for network operators as it offers independent elements for hardware and software, allowing the use of commercial off-the-shelf hardware, to accelerate delivery of new solutions and innovations.
- The *network sharing* business model is growing in popularity among mobile network operators (MNOs) who are faced with increasing competition from over-the-top players and an ever-growing capacity crunch. Network sharing can be particularly effective in the hauling portion of mobile networks, especially as conventional macro cells evolve into super-sized macro sites that require exponentially more bandwidth for wireless hauling. It has become abundantly clear that in these new scenarios, a new breed of wireless hauling solutions with a significant investment is required. Our wireless hauling solutions support network sharing concepts by addressing both the ultra-high capacities required for carrying multiple operator traffic, as well as the policing for ensuring that each operator's service level agreement is maintained.
- While green-field deployments tend to be all IP-based, the overwhelming portion of network infrastructure investments goes into upgrading, or "*modernizing*" existing cell-sites to fit new services with a lower total cost of ownership. Modernizing is more than a simple replacement of network equipment. It helps operators build up a network with enhanced performance, capacity and service support. For example, Ceragon offers a variety of innovative mediation devices that eliminate the need to replace costly antennas, which are already deployed. In doing so, we help our customers to reduce the time and the costs associated with network upgrades. The result: a smoother upgrade cycle, short network down-time during upgrades and faster time to revenue.
- A growing market for non-mobile backhaul applications which includes: offshore communications for the oil and gas industry, as well as the shipping industry, which require a unique set of solutions for use on moving rigs and vessels; broadcast networks that require robust, highly reliable communication for the distribution of live video content either as a cost efficient alternative to fiber, or as a backup for fiber installations; and Smart Grid networks for utilities, as well as local and national governments that seek greater energy efficiency, reliability and scale.
- A growing demand for high capacity, IP-based long-haul solutions in emerging markets where telecom and broadband infrastructure, such as fiber, is lacking. This demand is driven by the need of service providers to connect more communities in order to bridge the digital divide, using 4G and eventually 5G services.
- *Subscriber growth* continues mainly in emerging markets such as India, Africa and Latin America.

Our Solutions

We offer a broad product portfolio of innovative, field-proven, high capacity wireless hauling solutions, which incorporate our unique multicore™ technology. Our multicore™ technology is a key element in our differentiation within the wireless hauling market, serving the “best-of-breed” market segment. Our multicore™ technology is comprised of a high order of digital signal carriers embedded in modems having multiple baseband cores, designed for microwave and millimeter-wave communications, and RF integrated circuits (RFIC), which support the entire available microwave and millimeter-wave spectrum. We integrate our multicore™ technology SoCs into sub-systems and complete wireless hauling solutions that deliver high value for our customers. With our approach to solutions, from system-on-a-chip design, all the way to solutions design, we enable cellular operators, other wireless service providers, public safety organizations, utility companies and private network owners to effectively obtain a range of benefits:

- *Increase business operational efficiency by reducing network related expenses.* Our customers are able to obtain the required capacity with one-quarter of the spectrum needed otherwise, double network capacity without adding more equipment simply by remotely expanding wireless link capacity, significantly reduce energy related expenses by utilizing our energy efficient products, use smaller antennas thereby reducing telecommunication tower leasing costs, and improve their staff productivity with the use of a single wireless hauling platform for their long-haul, short-haul and small/distributed cells hauling needs. We offer a range of solutions for quick and simple modernization of wireless networks to 4G and 5G, which significantly contribute to our customers' ability to modernize and expand their services.

Our wireless hauling solutions are offered across the widest range of frequencies - from 4GHz microwaves to 86GHz millimeter-waves. This provides our customer more flexibility in deploying its wireless hauling infrastructure, as it enables the customer to select the spectrum available in the customer's market, from a wider range of frequencies. Any transport network topology is supported to enable high network availability and resiliency, including ring, mesh, tree and chain topologies.

- *Enhance service portfolio, quality of experience and reach.* Our multicore™ technology allows our customers to introduce new services (e.g. 5G use cases), to improve subscriber (user) quality of experience generated from the voice, data and multimedia services that they provide to their customers and to extend their network and services reach in order to address new markets.
- *Ensure peace of mind.* Our solutions utilize the latest in microwave and millimeter-wave technology, incorporated in-house developed System-on-Chips (baseband and RF integrated circuits), and use the latest advances in SMT (Surface-mount technologies) based manufacturing – allowing our customers to benefit from the highest service availability across their Ceragon-based wireless hauling network.

We provide our customers with future solutions already built-in to their Ceragon-installed base. We invest a significant amount of effort in designing and providing solutions, which are not only backward compatible with our earlier product generations, but also allow our customers to reuse the radio units and antennas of their Ceragon links installed base, thereby replacing only the low labor-consuming indoor (sheltered) units - thus benefiting from the latest wireless hauling performance of our latest technology across their Ceragon-installed base. Moreover, our solutions support multiple technologies within the same wireless hauling equipment, providing our customers with high flexibility in network transition from legacy connectivity to 4G and 5G connectivity and architectures, at their desired pace of transition - while achieving long-term operational efficiency, high service quality and availability.

Design to Cost. We see increasing demand for smaller systems with low power consumption and a cost structure that fits today's business environment in the diverse markets, seeking wireless hauling solutions. We believe that this complicated puzzle can only be solved through vertical integration from system to chip level. Our strategy to drive performance up while driving cost down is achieved through our investment in modem and RF (radio frequency) integrated circuit (IC) design. Our advanced chipsets, which are already in use in hundreds of thousands of units in the field, integrate all the radio functionality required for high-end microwave and millimeter-wave systems. By owning the technology and controlling the complete system design, we achieve a very high level of vertical integration and cost structure and control over the timing of introducing certain capabilities, which is not available to vendors relying on off-the-shelf chipsets. This, in turn, yields systems that have superior performance when compared with systems which use off-the-shelf chipsets component available from the other single source, due to our ability to closely integrate and fine-tune the performance of all the radio components. By significantly reducing the number of components in the system and simplifying its design, we have made our solutions easier to manufacture. We have introduced automated testing that allows us to speed up production while lowering the costs for electronic manufacturing services manufacturers. Thus, we believe we are able to achieve one of the lowest per-system cost positions in the industry and can offer our customers further savings through compact, low power consumption designs – which is becoming a key parameter in the ability of operators to deploy their networks, while meeting operational efficiency targets.

As an example, our FibeAir IP-20C, which is a complete wireless backhaul node, can quadruple the link capacity over a single frequency channel when compared to the capacity that can be achieved over the same single frequency channel by other vendors' single channel solutions. This IP-20C node has nearly the same footprint as our older generation RFU-C which is a single-channel radio unit that Ceragon provides, and is not a full system, but only the RF module of the product. This achievement could not have been possible without our full control of the entire design and production process.

Strategic Partnerships. Ceragon maintains strategic partnerships with third party solution vendors and network integrators. Through these relationships Ceragon develops interoperable ecosystems, enabling operators to profitably evolve mobile networks by using complementary hauling alternatives. In some cases, we have entered into a strategic alliance with a potential competitor that nevertheless, choose our technology for its future products, acknowledging that we propose the “best-of-breed” cutting edge technology.

Our Products

Our portfolio of products utilizes microwave and millimeter-wave radio technologies that provide our customers with a wireless connectivity that dynamically adapts to weather conditions and optimizes range and efficiency for a given frequency channel bandwidth. Our products are typically sold as a complete system comprised of some or all of the following four components: an outdoor unit, an indoor unit, a compact high-performance antenna and a network management system. We offer all-packet microwave and millimeter-wave radio links, with optional migration from TDM to Ethernet. Our products include integrated networking functions for both TDM, Ethernet and IP/MPLS.

We offer our products in four configurations: All-outdoor, split-mount, all-indoor, and disaggregated hauling.

- All-outdoor solutions combine the functionality of both the indoor and outdoor units in a single, compact device. This weather-proof enclosure is fastened to an antenna, eliminating the need for rack space or sheltering, as well as the need for air conditioning.
- Split-mount solutions consist of:
 - Indoor units which are used to process and manage information transmitted to and from the outdoor unit, aggregate multiple transmission signals and provide a physical interface to wire-line networks.
 - Outdoor units or Radio Frequency Units (RFU), which are used to control power transmission, and provide an interface between antennas and indoor units. They are contained in compact weather-proof enclosures fastened to antennas. Indoor units are connected to outdoor units by standard coaxial or Cat-5 baseband cables.
- All-indoor solutions refer to solutions in which the entire system (indoor unit and RFU) reside in a single rack inside a transmission equipment room. A waveguide connection transports the radio signals to the antenna mounted on a tower. All indoor equipment is typically used in long-haul applications.
- Disaggregated wireless hauling solutions offer a single radio suitable for all-outdoor, a split-mount scenario, and a networking unit, which provides versatile and scalable hardware options based on merchant routing silicon and will also provide routing capabilities that are radio technologies aware.
- Pointing accuracy solutions for high movement environments. These are advanced microwave radio systems for use on moving rigs/vessels where the antenna is stabilized in one or two axes, azimuth or azimuth/elevation.
- Antennas are used to transmit and receive microwave radio signals from one side of the wireless link to the other. These devices are mounted on poles typically placed on rooftops, towers or buildings. We rely on third party vendors to supply this component.
- End-to-End Network Management. Our network management system uses standard management protocol to monitor and control managed devices at both the element and network level and can be easily integrated into our customers' existing network management systems.

The IP-20 Platform provides a wide range of solutions for any configuration requirement and diverse networking scenarios. Composed of high-density multi-technology nodes and integrated radio units of multiple radio technologies ranging from 4GHz and up to 86GHz, it offers ultra-high capacity of multiple Gbps with flexibility in accommodating for every site providing high performance terminals for all-indoor, split-mount and all-outdoor configurations. The IP-20 platform supports carrier-ethernet services and is MEF 2.0 certified.

The **IP-50 Platform** provides disaggregated wireless hauling using a single type of radio in microwave or millimeter-wave for all configuration and installation scenarios and IP/MPLS and segment routing capabilities over merchant silicon hardware options.

IP-20 All-outdoor solutions:

| Product | Frequency range | Application | Networking & transport technologies |
|------------------|-----------------------|------------------------------------|-------------------------------------|
| IP-20C | 6-42GHz, dual-carrier | Shorthaul, small cells, enterprise | Carrier Ethernet |
| IP-20C-HP | 4-11GHz, dual-carrier | Longhaul | Carrier Ethernet |
| IP-20S | 6-42GHz | Shorthaul, enterprise | Carrier Ethernet |
| IP-20E | 71-86GHz | Shorthaul, small cells, enterprise | Carrier Ethernet |
| IP-20V | 57-66GHz | Shorthaul, small cells, enterprise | Carrier Ethernet |

IP-20 Split-mount / all-indoor solutions:

| Product | Frequency range | Application | Networking & transport technologies |
|------------------------|-----------------|----------------------|-------------------------------------|
| IP-20N / IP-20A | 4-86GHz | Shorthaul, Long-haul | Carrier Ethernet, TDM |
| IP-20F | 4-86GHz | Shorthaul | Carrier Ethernet, TDM |
| IP-20G | 6-42GHz | Shorthaul | Carrier Ethernet, TDM |

IP-50 disaggregated solutions:

| Product | Frequency range | Application | Networking & transport technologies |
|----------------|-----------------------|---|-------------------------------------|
| IP-50E | 71-86GHz | Shorthaul, Fronthaul, Enterprise access | IP/MPLS, CE |
| IP-50C | 6-42GHz, dual-carrier | Shorthaul | IP/MPLS, CE |
| IP-50FX | 6-86GHz | Shorthaul | IP/MPLS, CE |
| IP-50S | 6-42GHz | Shorthaul | IP/MPLS, CE |

As wireless hauling capacity needs grow, the wireless hauling network blueprint evolves to supporting more radio carriers in one box (2 carriers, instead of 1) as a basic configuration with the IP-20C product, or even 4+0 (a link utilizing 4-carriers in a carrier-aggregation configuration) in all-outdoor configuration with layer-1 carrier aggregation to support growing capacity needs at minimal foot print with the IP-50C product. Ceragon's multicore™ technology covers all network scenarios and site configurations wherever All-outdoor, Split-mount, or All-indoor. Various multicore™ radio units can be used with IP-20N, IP-20F or IP-50FX products, such as RFU-D and the RFU-D-HP, or IP-50C and IP-50E in the disaggregated solution (i.e. can be used as a stand-alone, all-outdoor radio or in a split-mount configuration, connected to the IP-50FX).

In addition to the IP-20 and the IP-50 Platforms, Ceragon provides the PointLink portfolio that offers a tailored solution for oil and gas and other maritime offshore applications.

Our network management system (NMS) can be used to monitor network element status, provide statistical and inventory reports, download software and configuration to elements in the network, and provide end-to-end service management across the network. Our NMS solutions support all our microwave and millimeter-wave products through a single user interface.

SDN (Software Defined Network) solution

As the mobile industry progresses towards the 5G era, SDN is becoming more important for operators. SDN allows the operators to have a complete, multi-technology, multi-vendor view of their network and apply optimization and predictive maintenance instructions in real time. The SDN concepts and values fit well the openness and disaggregation principles our customers are seeking. We offer our customers a wide variety of SDN supporting products and tools:

- *SDN Controller* – Ceragon's SDN Master is a complete controller supporting SDN protocols that can monitor and control Ceragon's products in an SDN environment. The SDN Master can work as a 'standalone' controller, or as part of an SDN solution managed by a higher level SDN controller offered by a third-party vendor (sometimes referred to as an SDN Orchestrator), allowing full flexibility to our customers.
- *SDN support in our wireless hauling products* - all Ceragon IP-20 and IP-50 products support the needed SDN protocols allowing the operator to manage these products with Ceragon SDN controllers but also with third part SDN controllers, again, allowing full flexibility to our customers.
- *SDN applications* – SW tools with significant impact on our customers TCO (total cost of ownership), network availability, and fast network rollout. These applications enable operators to increase their network efficiency and effectiveness with operational optimization and automatization capabilities. With the SDN technology, Ceragon SW solutions are entering into the cloud domain allowing multiple open and flexible deployment scenarios for our customers.
- *IP-100 Platform* - Ceragon is currently investing in a new chipset which incorporates 8-cores (Octa-core) in a chipset expected to be available in 2021, offering industry-leading performance and capacity. We are already designing the first IP-100 products using that chipset that will significantly increase our wireless hauling products capabilities in terms of higher capacity, lower latency, lower physical size and power consumption and more. These capabilities will make the IP-100 platform the optimize choice for existing and new use cases in the 5G mobile market. The IP-100 platform will expand Ceragon products coverage beyond the MW bands, V-Band and E-Band range (4-86 GHz) and will include W-band (up to 110 GHz) and D-band (up to 170 GHz) products.

Our IP-based network products use native IP technology. Our hybrid products use our hybrid concept, which allows them to transmit both native IP and native circuit-switched TDM traffic simultaneously over a single radio link. Native IP refers to systems that are designed to transport IP-based network traffic directly rather than adapting IP-based network traffic to existing circuit-switched systems require vis versa. This approach increases efficiency and decreases latency. Our products provide effectively seamless migration to gradually evolve the network from an all circuit-switched and hybrid concept to an all IP-based packet.

As telecommunication networks and services become more demanding, there is an increasing need to match the indoor units' advanced networking capabilities with powerful and efficient radio units. Our outdoor RFUs are designed with sturdiness, power, simplicity and compatibility in mind. As such, they provide high-power transmission for both short and long distances and can be assembled and installed quickly and easily. The RFUs can operate with different Ceragon indoor units, according to the desired configuration, addressing any network need be it cellular, backbone, rural or private backhaul networks.

Our Services

We are responsible for installing most of the links we ship. We offer complete solutions and services for the design and implementation of telecommunication networks, as well as the expansion or integration of existing ones. We have a global projects and services group that operates alongside our products groups. Under this group we offer our customers a comprehensive set of turn-key services including: advanced network and radio planning, site survey, solutions development, installation, network auditing and optimization, maintenance, training and more. Our services include utilization of powerful project management tools in order to streamline deployments of complex wireless networks, thereby reducing time and costs associated with network set-up, and allowing faster time to revenue. Our experienced teams can deploy hundreds of "wireless hauling links" every week, and our rollout project track-record includes hundreds of thousands of links already installed and in operation with a variety of Tier 1 operators.

We are committed to providing high levels of service and implementation support to our customers. Our sales and network field engineering services personnel work closely with customers, system integrators and others to coordinate network design and ensure successful deployment of our solutions.

We support our products with documentation and training courses tailored to our customers' varied needs. We have the capability to remotely monitor the in-network performance of our products and to diagnose and address problems that may arise. We help our customers to integrate our network management system into their existing internal network operations control centers.

Our Customers

We have sold our products, directly and through a variety of channels, to over 404 service providers and more than 850 private network customers in more than approximately 155 countries. Our principal customers are wireless service providers that use our products to expand hauling network capacity, reduce hauling costs and support the provision of advanced telecommunications services. In 2020, we continued to maintain our position as the number one wireless hauling specialist, in terms of unit shipments and global distribution of our business. While most of our sales are direct, we do reach a number of these customers through OEM or distributor relationships. We also sell systems to large enterprises and public institutions that operate their own private communications networks through system integrators, resellers and distributors. Our customer base is diverse in terms of both size and geographic location.

In 2020, customers from the Europe region contributed 17% of total yearly revenue. Our sales in Latin America and Africa in 2020 were 18% and 9% of yearly revenue, respectively. Our sales in Asia Pacific (excluding India), North America and India in 2020 were 18%, 14% and 24%, respectively.

The following table summarizes the distribution of our revenues by region, stated as a percentage of total revenues for the years ended December 31, 2018, 2019 and 2020:

| Region | Year Ended December 31, | | |
|------------------------|-------------------------|------|------|
| | 2018 | 2019 | 2020 |
| North America | 12% | 15% | 14% |
| Europe | 11% | 15% | 17% |
| Africa | 7% | 9% | 9% |
| India | 38% | 17% | 24% |
| APAC (excluding India) | 14% | 19% | 18% |
| Latin America | 18% | 25% | 18% |

Sales and Marketing

We sell our products through a variety of channels, including direct sales, OEMs, resellers, distributors and system integrators. Our sales and marketing staff, including services and supporting functions, includes approximately 630 employees in many countries worldwide, who work together with local agents, distributors and OEMs to expand our business.

We are a supplier to various key OEMs which together accounted for approximately 7% of our revenues in 2020. System integrators, distributors and resellers accounted for approximately 18% of our revenues for 2020. We are focusing our efforts on direct sales, which accounted for approximately 75% of our revenues for 2020. We also plan to develop additional strategic relationships with equipment vendors, global and local system integrators, distributors, resellers, networking companies and other industry suppliers with the goal of gaining greater access to our target markets.

Marketing plays an important role in promoting Ceragon's products, solutions and services, and ultimately establishing its leadership and differentiation in the market. Ceragon's key marketing activities include the following:

- Proactively planning and executing marketing campaigns and developing content as well as communications material to promote the Ceragon products, solutions and services to customers and prospects over the entire course of the sales-cycle. Activities include advertising, e-mail, press releases, newsletters, marketing collateral (white papers, e-books, brochures, case studies, etc.), blogs, promotional videos and more. This content is produced and written with search engine optimization in mind to ensure Ceragon high ranking in customer organic search results.
- Organizing and running exhibitions, seminars and events. This goes far beyond the mere planning the logistics of the event, but customizing messaging for target audience, creating event materials, such as displays, presentations, animated videos, demos, and most importantly promoting the event to customers and prospects to ensure successful attendance and secure customer meetings.

Manufacturing and Assembly

Our manufacturing process consists of materials planning and procurement, assembly of indoor units and outdoor units, final product assurance testing, quality control and packaging and shipping. With the goal of streamlining all manufacturing and assembly processes, we have implemented an outsourced, just-in-time manufacturing strategy that relies on contract manufacturers to manufacture and assemble circuit boards and other components used in our products and to assemble and test indoor units and outdoor units for us. The use of advanced supply chain techniques has enabled us to increase our manufacturing capacity, reduce our manufacturing costs and improve our efficiency.

We outsource most of our manufacturing operations to major contract manufacturers in Israel, Singapore and Ukraine. Additionally, in December 2017 we closed our manufacturing activities in the Philippines. Most of our warehouse operations are outsourced to subcontractors in Israel, the Netherlands, the United States and Singapore. The raw materials (components) for our products come primarily from the United States, Europe and Asia Pacific.

We comply with standards promulgated by the International Organization for Standardization and have received certification under the ISO 9001, ISO 14001, ISO 27001 and OHSAS 18001 standards. These standards define the procedures required for the manufacture of products with predictable and stable performance and quality, as well as environmental guidelines for our operations and safety assurance.

Our activities in Europe require that we comply with European Union Directives with respect to product quality assurance standards and environmental standards including the “RoHS” (Restrictions of Hazardous Substances) Directive.

Research and Development

We place considerable emphasis on research and development to improve and expand the capabilities of our existing products, to develop new products, with particular emphasis on equipment for increasing the transmitted capacity and effective bandwidth utilization, and to lower the cost of producing both existing and future products. We intend to continue to devote a significant portion of our personnel and financial resources to research and development. As part of our product development process, we maintain close relationships with our customers to identify market needs and to define appropriate product specifications. In addition, we intend to continue to comply with industry standards and we are full members of the European Telecommunications Standards Institute in order to participate in the formulation of European standards.

Our research and development activities are conducted mainly at our facilities in Tel Aviv, Israel, but also at our subsidiaries in Greece and Romania. As of December 31, 2020, our research, development and engineering staff consisted of 247 employees. Our research and development team include highly specialized engineers and technicians with expertise in the fields of millimeter-wave design, modem and signal processing, data communications, system management and networking solutions.

Our research and development department provide us with the ability to design and develop most of the aspects of our proprietary solutions, from the chip-level, including both application specific integrated circuits, or ASICs and RFICs, to full system integration. Our research and development projects currently in process include extensions to our leading IP-based networking product lines and development of new technologies to support future product concepts. In addition, our engineers continually work to redesign our products with the goal of improving their manufacturability and testability while reducing costs.

To further expand global business footprint, Ceragon has recently entered into an agreement with a leading industry partner. The agreement calls for a development program, wherein the companies will leverage Ceragon’s experience and unique capabilities in microwave and millimeter-wave communications, to develop baseband technologies, which will further accelerate innovation and deliver premium cutting-edge solutions for 5G wireless hauling.

Intellectual Property

To safeguard our proprietary technology, we rely on a combination of patent, copyright, trademark and trade secret laws, confidentiality agreements and other contractual arrangements with our customers, third-party distributors, consultants and employees, each of which affords only limited protection. We have a policy which requires all of our employees to execute employment agreements which contain confidentiality provisions.

To date, we have 19 patents granted in the United States and other foreign jurisdictions including the EPO (European Patent Office) and 2 patent applications pending in the United States and other foreign jurisdictions including the EPO.

We have registered trademarks as follows:

- for the standard character mark Ceragon Networks in the United States and Israel;
- for the standard character mark Ceragon Networks in Canada;

- for the standard character mark CERAGON in Morocco, Malaysia, Indonesia, Japan, Russia, Israel, Mexico, the United States, South Africa, the Philippines, Argentina, Venezuela, Peru, Canada, Nigeria, Brazil and Colombia and International Registration (protection granted in Australia, Iceland, Bosnia & Herzegovina, Korea, Switzerland, Croatia, Norway, Russia, China, Ukraine, CTM (European Union), Turkey, Singapore, and Macedonia);
 - for our design mark for FibeAir in the United States, Israel and the European Union;
 - for the standard character mark FibeAir in the United States;
 - for the standard character mark CeraView in Israel and the European Union.
- We have pending trademark applications for the standard character mark CERAGON in India, and International Registration (protection pending in Egypt, Kenya and Vietnam).

Competition

The market for wireless equipment is rapidly evolving, fragmented, highly competitive and subject to rapid technological change. We expect competition, which may differ from region to region, to persist in the future - especially if rapid technological developments occur in the broadband wireless equipment industry or in other competing high-speed access technologies.

We compete with a number of wireless equipment providers worldwide that vary in size and in the types of products and solutions they offer. Our primary competitors include large wireless equipment manufacturers referred to as generalists, such as Huawei Technologies Co., Ltd., L.M. Ericsson Telephone Company, NEC Corporation, Nokia and ZTE Corporation. In addition to these primary competitors, a number of other smaller wireless hauling equipment suppliers, including Aviat Networks Inc., SIAE Microelectronica S.p.A, and Intracom telecom, offer and develop products that compete with our products.

We also expect consolidation pressure to continue as the wireless equipment market continues to be highly competitive and, as a result, we face price pressures. We expect to continue to be a leader in the “best-of-breed” market segment of the wireless hauling market in terms of market share, technology and innovation, providing significant value to our customers.

Further market dynamics may drive some operators, which seek “best-of-breed” solutions, to seek “bundled” network solutions from the generalists. This trend may put an additional strain on our competitiveness.

We believe we compete favorably based on:

- The diversification of our technologies and capabilities, which allows flexible vertical integration options, including the development of the core technology – RFIC and modems, including SoC (System on Chip);
- our focus and active involvement in shaping next generation standards and technologies, which deliver best customer value;
- our product performance, reliability and functionality, which assist our customers to achieve the highest value;
- the range and maturity of our product portfolio, including the ability to provide solutions in every widely available microwave and millimeter-wave licensed and license-exempt frequency, as well as our ability to provide both IP and circuit switch solutions and therefore to facilitate a migration path for circuit-switched to IP-based networks;
- our design to cost structure;
- our time-to-market advantage, due to having our own technology and our own chipsets;
- our focus on high-capacity, point-to-point microwave and millimeter-wave technologies, which allows us to quickly adapt to our customers’ evolving needs;
- the range of rollout services offering for faster deployment of an entire network and reduced total cost of ownership;
- our support and technical service, experience and commitment to high quality customer service, and
- our ability to expand to other vertical markets such as oil and gas and public safety, by drawing upon the capabilities of our technologies and solutions.

The Israel Innovation Authority.

The government of Israel encourages research and development projects in Israel through the IIA, formerly known as the Israeli Office of Chief Scientist, pursuant to the provisions of the R&D Law and subject thereto. We received grants from the IIA for several projects and may receive additional grants in the future.

Under the terms of certain IIA plans, a company may be required to pay royalties ranging between 3% to 6% of the revenues generated from its products or services incorporating know-how developed with, or are a derivative of, funds received from the IIA (“**IIA Products**”), until 100% of the dollar value of the grant is repaid (plus LIBOR interest applicable to grants received on or after January 1, 1999).

The R&D Law requires that the manufacturing of IIA Products be carried out in Israel, unless the IIA provides its approval to the contrary. Such approval may only be granted under various conditions and entails repayment of increased royalties equal to up to 300% of the total grant amount, plus applicable interest, depending on the extent of the manufacturing that is to be conducted outside of Israel. In any case, IIA Products manufactured abroad carry an increase of 1% in the royalty rate.

The R&D Law also provides that know-how (and its derivatives) developed with, or that is a derivative of, funds received from the IIA and any right derived therefrom may not be transferred to third parties, unless such transfer was approved in accordance with the R&D Law. The research committee operating under the IIA may approve the transfer of know-how between Israeli entities, provided that the transferee undertakes all the obligations in connection with the R&D grant as prescribed under the R&D Law. In certain cases, such research committee may also approve a transfer of know-how outside of Israel, in both cases subject to the receipt of certain payments, calculated according to a formula set forth in the R&D Law, in amounts of up to six (6) times the total amount of the IIA grants, plus applicable interest (in case of transfer outside of Israel), and three (3) times of such total amount, plus applicable interest, (in case sufficient R&D activity related to the know how remains in Israel). Such approvals are not required for the sale or export of any products resulting from such R&D activity.

Further, the R&D Law imposes reporting requirements on certain companies with respect to changes in the ownership of a grant recipient. The grant recipient, its controlling shareholders, and foreign interested parties of such companies must notify the IIA of any change in control of the grant’s recipient or the holdings of the “means of control” of the recipient that result in an Israeli or a non-Israeli becoming an interested party directly in the recipient. The R&D Law also requires the new interested party to undertake to comply with the R&D Law. For this purpose, “control” means the ability to direct the activities of a company (other than any ability arising solely from serving as an officer or director of the company), including the holding of 25% or more of the “means of control”, if no other shareholder holds 50% or more of such “means of control.” “Means of control” refers to voting rights or the right to appoint directors or the chief executive officer. An “interested party” of a company includes a holder of 5% or more of its outstanding share capital or voting rights, its chief executive officer and directors, someone who has the right to appoint its chief executive officer or at least one director, and a company with respect to which any of the foregoing interested parties owns 25% or more of the outstanding share capital or voting rights or has the right to appoint 25% or more of the directors. Accordingly, in certain cases, any non-Israeli who acquires 5% or more of our ordinary shares may be required to notify the IIA that it has become an interested party and to sign an undertaking to comply with the R&D Law. In addition, the rules of the IIA may require additional information or representations with respect to such events.

In December 2006, we entered into an agreement with IIA (then the Office of the Chief Scientist at the Ministry of Economy) to conclude our research and development grant programs sponsored by the IIA. Under the agreement, we were obligated to repay the IIA approximately \$11.9 million in outstanding grants, in six semiannual installments from 2007 through 2009. During the second quarter of 2008, we paid the IIA approximately \$7.4 million to retire all the debt remaining from this agreement.

Generic Program Grants. In each of 2013 and 2014 we received approval for a new R&D grant from the IIA in amounts of approximately \$0.7 million and \$0.9 million respectively, under a generic program (the “Generic Plan”). Additionally, and under such plan, in 2015 we received approval for new R&D grants in the amount of approximately \$0.6 million, and in 2016, 2017 and 2018 we received approval for grants in a total amount for the three years, of approximately \$1.4 million. In 2019 and 2020 we received approval for additional grants under the Generic Plan, in the frame of which we expect to receive a total amount of approximately \$ 1.3million. The Generic Plan requires us to comply with the requirements of the R&D Law in the same manner applicable to previous grants, provided, however, that the obligation to pay royalties on sales of products based on technology or know how developed with the Generic Plan may apply, under certain conditions, to a recipient of the technology or knowhow developed with the Generic Plan, to the extent such is sold and/or transferred, while the Company’s self sales of its products without such transfer, do not bear royalty payment obligations. In addition, we may manufacture part of the products developed under the program outside of Israel, up to the percentages declared in our applications for such grants.

Magnet Program Grants. In March 2014, we participated in two “Magnet” Consortium Programs (the “Magnet Programs”) sponsored by the IIA. Under the Magnet Programs, which is intended to support innovative generic industry-oriented technologies, we cooperated with additional companies and research institutes. In the years 2016, 2017 and 2018 we received an approval from the IIA for a sum of \$3.8 million in the aggregate, under the Magnet Programs. The R&D Law applies to the Magnet Programs, including the restrictions on transfer of know how or manufacturing outside of Israel, as described above. In addition, certain restrictions resulting from Magnet Programs’ internal agreements between the consortium members may apply.

Other Plans and Programs.

In 2020 we joined as a member to an Industrial consortium called “WIN – Wireless Intelligent Networks Consortium” under a MAGNET consortium. In the framework of this project we (Ceracon only) received an approval for a grant of approximately \$0.6 million for the period from March 2020 until September 2021. In May 2021 we intend to submit an application for the second stage of the project and expected to receive an additional amount of approximately \$0.6 million (and, in the aggregate, grant of approximately \$1.2 million under the MAGNET consortium.

In 2020 we signed with Ariel University a Research and License Agreement under the MAGNETON Plan. In the framework of this project the IIA approved to grant us an amount of \$0.3 million for the year 2020. In 2021 the IIA is expected to approve an additional amount we are expected to receive an additional of \$0.3 million for the year 2020.

In 2020 we submitted an application under the Promoting Applies Research in Academia (NOFAR). Under this project (if will be approved by the IIA), we support a development plan of Ariel University and fund 10% of this plan (the IIA grants the other 90%). Under this plan, we will not get any grant from the IIA.

The WIN, MAGNETON and NOFAR programs do not bear royalty payment obligations to the IIA, but may be subject to certain commercial arrangements among the participants thereof.

At the end of 2021, the publication of the LIBOR is scheduled to cease and alternative interests will be applied on, among other things, the grants that the Company received from the IIA. While the effect that the replacement of the LIBOR interest will have on the Company remains uncertain as of the date of this annual report on Form 20-F, as the IIA has not yet published the alternative interest that will be applied by it, the Company assesses that such change will not have a material effect on its operations and financial condition in light of the common interests in the market.

C. Organizational Structure

We are an Israeli company that commenced operations in 1996. The following is a list of our significant subsidiaries:

| Company | Place of Incorporation | Ownership Interest |
|--|------------------------|--------------------|
| Ceragon Networks, Inc. | New Jersey | 100% |
| Ceragon Networks (India) Private Limited | India | 100% |

D. Property, Plants and Equipment

Our corporate headquarters and principal administrative, finance and operations departments are planning to relocate to their new site at Nitsba Park at Rosh Ha'Ain, Israel. To date, we are in transition and hold leased facility of approximately 57,000 square feet of office space and approximately 9,000 square feet of warehouse space, in Tel Aviv, Israel. The lease of this space will expire on March 31, 2021. As mentioned above, we are in the process of relocating to a leased facility of approximately 66,600 square feet of office space and approximately 5,800 square feet of warehouse space at Nitsba Park at Rosh Ha'Ain, Israel, under a long-term lease agreement expiring in 2031. Due to, among other things, the effect of COVID-19 and the travel and partial lockout restrictions which were imposed by the State of Israel in order to cope with the spread of COVID-19, as well as other project delays, the transition timetable was longer than expected.

We also lease the following space at the following properties:

- in the United States, we lease approximately 5,300 square feet of premises in Overlook at Great Notch, New Jersey, expiring November 2021 and approximately 8,200 square feet of office and warehouse space in Richardson, Texas, expiring March 2024.
- in India, we lease approximately 11,700 square feet of office space in New Delhi, expiring in March 2028.
- in Romania, we lease approximately 20,000 square feet of office and space in Bucharest, Romania, expiring in November 2023.

We also lease space for other local subsidiaries to conduct pre-sales and marketing activities in their respective regions.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with our consolidated financial statements, the notes to those financial statements, and other financial data that appear elsewhere in this annual report. In addition to historical information, the following discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those set forth in “Risk Factors” and elsewhere in this annual report. Our consolidated financial statements are prepared in conformity with U.S. GAAP.

For a discussion of our results of operations for the year ended December 31, 2018, including a year-to-year comparison between 2019 and 2018, and a discussion of our liquidity and capital resources for the year ended December 31, 2018, refer to Item 5. “Operating and Financial Review and Prospects” in our Annual Report on Form 20-F for the year ended December 31, 2019.

A. Operating Results

Overview

We are the number one wireless hauling specialist in terms of unit shipments and global distribution of our business. We provide wireless hauling solutions that enable cellular operators and other wireless service providers to serve a broad range of use-cases, including mobile broadband, fixed broadband, Industrial and other IoT services. Our solutions use microwave and millimeter wave technology to transfer large amounts of telecommunication traffic between base stations and small/distributed-cells and the core of the service provider’s network.

We also provide our solutions to other non-carrier vertical markets such as oil and gas companies, public safety network operators, businesses and public institutions, broadcasters, energy utilities and others that operate their own private communications networks. Our solutions are deployed by more than 404 service providers, as well as more than 850 private network owners, in over approximately 155 countries.

Industry Trends

Market trends have placed, and will continue to place, pressure on the selling prices for our products. Our objective is to continue to meet the demand for our solutions while at the same time increasing our profitability. We seek to achieve this objective by constantly reviewing and improving our execution in, among others, development, manufacturing and sales and marketing. Set forth below is a more detailed discussion of the trends affecting our business:

- Sudden and wide widespread surge in network traffic in 2020 emerging from COVID-19 pandemic continues to cause global change to the way business and individuals access information for work and leisure. The result of national lock-ins for large parts of the population brings many businesses to exercise company-wide work-from-home with massive use of video conferencing and cloud network communication. Entire families stay longer at home and extensively consume video streaming and online gaming, along with video chats with friends and relatives. The result is a sudden and sharp increase in home broadband demand, while today’s home broadband networks are not designed for such usage patterns. Some countries, even developed ones, lack broadband communication networks in rural areas. As a result, service providers are required to increase network investment to match the network capabilities to the surge in broadband demand. We anticipate that the increase in network traffic which service providers are experiencing today amidst the pandemic will remain and even increase, as companies and employees adapt to broader use of telecommuting, and families adopt higher use of video calls/chats as larger portions of the world population, young and elderly alike, use highly visual remote communication tools and high volume communication transactions.

- 5G will enable operators to enhance their services portfolio with more use cases such as enhanced mobile broadband (eMBB) delivering gigabit broadband, as well as address new market segments such as IoT & IIoT and mission critical applications with URLLC (Ultra Reliable Low Latency Communications) and mMTC (Massive Machine Type Communications) services. Those services, combined with new network architectures will require higher capacity, lower latency networks and in particular higher hauling capacity, far denser macro cells and small/distributed cells grids and the implementation of network virtualization technologies and architectures, namely network slicing using SDN. Our wireless hauling solutions resolve both higher capacity, lower latency and network densification requirements with advanced capabilities, based on our multicore™ technology for microwave narrowband spectrum (up to 224Mhz) and the use of wider bands in millimeter-wave spectrum, up to 2,000MHz. Network virtualization requirements are addressed with layer 3 capabilities and SDN support.
- *Software Defined Networking* (SDN) is an emerging concept aimed at simplifying network operations and allowing network engineers and administrators to quickly respond to a fast-changing business environment. SDN delivers network architectures that transition networks from a world of task-specific dedicated network devices, to a world of optimization of network performance through network intelligence incorporated within network controllers performing control functions and network devices, which perform traffic (data-plane) transport. Our wireless hauling solutions are SDN-ready, built around a powerful software-defined engine and may be incorporated within the SDN network architecture. Our SDN architecture is envisioned to provide a set of applications that can achieve end-to-end wireless hauling network optimization by intelligently making use of the scarce network resources, such as spectrum and power consumption.
- The emergence of *distributed cells* presents hauling challenges that differ from those of traditional macro-cells. Distributed cells are used to provide connectivity and capacity in hot spots and underserved spots, as well as increase coordination between adjacent cells, leading to improved service level. They also significantly reduce the cost of cell-site equipment. This new architecture is forecasted to be present in a high percentage of advanced 5G network deployments. Our distributed-cells wireless hauling portfolio includes a variety of compact all-outdoor solutions that provide operators with optimal flexibility in meeting their unique physical, capacity, networking, and regulatory requirements.
- The introduction of a *disaggregated model* for hardware and software. This model allows better scalability, simplicity and flexibility for network operators as it offers independent elements for hardware and software, allowing the use of commercial off-the-shelf hardware, to accelerate delivery of new solutions and innovations.
- The *network sharing* business model is growing in popularity among mobile network operators (MNOs) who are faced with increasing competition from over-the-top players and an ever-growing capacity crunch. Network sharing can be particularly effective in the hauling portion of mobile networks, especially as conventional macro cells evolve into super-sized macro sites that require exponentially more bandwidth for wireless hauling. It has become abundantly clear that in these new scenarios, a new breed of wireless hauling solutions with a significant investment is required. Our wireless hauling solutions support network sharing concepts by addressing both the ultra-high capacities required for carrying multiple operator traffic, as well as the policing for ensuring that each operator's service level agreement is maintained.
- While green-field deployments tend to be all IP-based, the overwhelming portion of network infrastructure investments goes into upgrading, or "*modernizing*" existing cell-sites to fit new services with a lower total cost of ownership. Modernizing is more than a simple replacement of network equipment. It helps operators build up a network with enhanced performance, capacity and service support. For example, Ceragon offers a variety of innovative mediation devices that eliminate the need to replace costly antennas, which are already deployed. In doing so, we help our customers to reduce the time and the costs associated with network upgrades. The result: a smoother upgrade cycle, short network down-time during upgrades and faster time to revenue.

- A growing market for non-mobile backhaul applications which includes: offshore communications for the oil and gas industry, as well as the shipping industry, which require a unique set of solutions for use on moving rigs and vessels; broadcast networks that require robust, highly reliable communication for the distribution of live video content either as a cost efficient alternative to fiber, or as a backup for fiber installations; and Smart Grid networks for utilities, as well as local and national governments that seek greater energy efficiency, reliability and scale.
- A growing demand for high capacity, IP-based long-haul solutions in emerging markets where telecom and broadband infrastructure, such as fiber, is lacking. This demand is driven by the need of service providers to connect more communities in order to bridge the digital divide, using 4G and eventually 5G services.
- *Subscriber growth* continues mainly in emerging markets such as India, Africa and Latin America.

We are also experiencing pressure on our sale prices as a result of several factors:

- Increased competition. Our target market is characterized by vigorous, worldwide competition for market share and rapid technological development. These factors have resulted in aggressive pricing practices and downward pricing pressures, and growing competition from both start-up companies and well-capitalized telecommunication systems providers.
- Regional pricing pressures. A significant portion of our sales derives from India, in response to the rapid build-out of cellular networks in that country. For the years ended December 31, 2019 and 2020, 17.4% and 23.6%, respectively, of our revenues were earned in India. Sales of our products in these markets are generally at lower gross margins in comparison to other regions. Recently, network operators have started to share parts of their network infrastructure through cooperation agreements, which may adversely affect demand for network equipment.
- Transaction size. Competition for larger equipment orders is increasingly intensifying due to the fact that the number of large equipment orders in any year is limited. Consequently, we generally experience greater pricing pressure when we compete for larger orders as a result of this increased competition and demand from purchasers for greater volume discounts. As an increasing portion of our revenues is derived from large orders, we believe that our business will be more susceptible to these pressures.

As we continue to focus on operational improvements, these price pressures may have a negative impact on our gross margins.

As we continue to adjust our geographic footprint, we are increasingly engaged in supplying installation and other services for our customers, often in emerging markets. In this context, we may act as the prime contractor and equipment supplier for network build-out projects, providing installation, supervision and commissioning services required for these projects, or we may provide such services and equipment for projects handled by system integrators. In such cases, we typically bear the risks of loss and damage to our products until the customer has issued an acceptance certificate upon successful completion of acceptance tests. If our products are damaged or stolen, or if the network we install does not pass the acceptance tests, the end user or the system integrator, as the case may be, could delay payment to us and we would incur substantial costs, including fees owed to our installation subcontractors, increased insurance premiums, transportation costs and expenses related to repairing or manufacturing the products. Moreover, in such a case, we may not be able to repossess the equipment, thus suffering additional losses. Also, these projects are rollout projects, which involve fixed-price contracts. We assume greater financial risks on fixed-price projects, which routinely involve the provision of installation and other services, versus short-term projects, which do not similarly require us to provide services or require customer acceptance certificates in order for us to recognize revenue. In addition, as most of our deliveries occur before we are able to collect the consideration for such projects, it poses further financial and customer credit risk, as well as liquidity risks of such customers.

In 2019, revenues increased all over the world, except for India, which experienced a major decrease in revenues. The increase in revenues was mainly in Latin America and APAC. In 2020, revenues decreased due to the impact of COVID-19 on our business, especially in Latin America. We were also impacted to a lesser extent by revenue decreases in APAC, North America and Africa, and revenue increases in India and Europe.

In addition, the COVID-19 pandemic has adversely affected the industry trend, while creating macro-economic uncertainty and disruption in the business and financial markets. Many countries around the world, including Israel, have been taking measures designated to limit the spread of the COVID-19, including the closure of workplaces, restricting travel, prohibiting assembling, closing international borders and quarantining populated areas. Such measures dramatically affect our ability and the ability of other vendors, suppliers, operators and industries in this market to conduct their business effectively, including, but not limited to adverse effect on employees health, increase in lead times and shipping costs, a slowdown of manufacturing, commerce, delivery, work, travel, collect payments and other activities which are essential and critical for maintaining on-going business activities. Despite the recent vaccine solutions and population vaccination efforts, there is still uncertainty around the vaccination timetable and efficiency, spread of new variants of COVID-19, the relaxation of protective measures and duration of the limitation on the ability to travel, sell, distribute and install products and other disruptions to our operations, all of which would have a negative impact on the market trend detailed above. In addition, the duration of these effects have macro and micro negative effects on the financial markets and global economy which might adversely affect our business.

Results of Operations

Revenues. We generate revenues primarily from the sale of our products, and, to a lesser extent, services. The final price to the customer may largely vary based on various factors, including but not limited to the size of a given transaction, the geographic location of the customer, the specific application for which products are sold, the channel through which products are sold, the competitive environment and the results of negotiation.

Cost of Revenues. Our cost of revenues consists primarily of the prices we pay contract manufacturers for the products they manufacture for us, the costs of off the shelf parts, accessories and antennas, the costs of our manufacturing facilities, estimated warranty costs, costs related to management of our manufacturing facilities, supply chain and shipping, as well as inventory write-off costs and amortization of intangible assets. In addition, we pay salaries and related costs to our employees and fees to subcontractors relating to installation services with respect to our products.

Significant Expenses

Research and Development Expenses, net. Our research and development expenses, net of government grants, consist primarily of salaries and related costs for research and development personnel, subcontractors' costs, costs of materials and depreciation of equipment. All of our research and development costs are expensed as incurred, except for development expenses, which are capitalized in accordance with ASC 985-20 and ASC 350-40. We believe that continued investment in research and development is essential to attaining our strategic objectives.

Selling and Marketing Expenses. Our selling and marketing expenses consist primarily of compensation and related costs for sales and marketing personnel, trade show and exhibit expenses, travel expenses, commissions and promotional materials.

General and Administrative Expenses. Our general and administrative expenses consist primarily of compensation and related costs for executive, finance, information system and human resources personnel, professional fees (including legal and accounting fees), insurance, provisions for credit loss (doubtful debts) and other general corporate expenses.

Financial expenses and others, net. Our financial expenses and others, net, consists primarily of gains and losses arising from the re-measurement of transactions and balances denominated in non-dollar currencies into dollars, gains and losses from our currency hedging activity, interest paid on bank loans, other fees and commissions paid to banks, actuarial losses and other expenses.

Taxes. Our taxes on income (benefit) consist of current corporate tax expenses in various locations and changes in tax deferred assets and liabilities, as well as reserves for uncertain tax positions.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the U.S ("U.S. GAAP"). These accounting principles require management to make certain estimates, judgments and assumptions based upon information available at the time they are made, historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented.

Our management believes the accounting policies that affect its more significant judgments and estimates used in the preparation of its consolidated financial statements and which are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Revenue recognition;
- Inventory valuation; and
- Provision for credit loss (doubtful debts).

Revenue recognition We generate revenues from selling products and services to end users, distributors, system integrators and original equipment manufacturers (“OEM”). 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, software products and licenses, 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 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 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.

Inventory valuation. Our inventories are stated at the lower of cost or realizable net value. Cost is determined by using the moving average cost method. At each balance sheet date, we evaluate our inventory balance for excess quantities and obsolescence. This evaluation includes an analysis of slow-moving items and sales levels by product and projections of future demand. If needed, we write off inventories that are considered obsolete or excessive. If future demand or market conditions are less favorable than our projections, additional inventory write-offs may be required and would be reflected in cost of revenues in the period the revision is made.

Provision for credit loss. We are exposed to credit losses primarily through sales to customers. Our provision for credit loss methodology is developed using historical collection experience, current and future economic and market conditions and a review of the current balances 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, a specific provision is recorded for customers that have a higher probability of default.

Impact of recently adopted accounting standards

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. The new accounting standard became effective for the Company beginning January 1, 2020. The Company recorded a cumulative-effect adjustment to its retained earnings as of January 1, 2020 in the amount of \$0.7 million.

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

Comparison of Period to Period Results of Operations

The following table presents consolidated statement of operations data for the periods indicated as a percentage of total revenues.

| | Year Ended December 31 | |
|------------------------------------|------------------------|--------|
| | 2019 | 2020 |
| Revenues | 100.0% | 100.0% |
| Cost of revenues | 66.1 | 71.2 |
| Gross profit | 33.9 | 28.8 |
| Operating expenses: | | |
| Research and development, net | 9.4 | 11.8 |
| Selling and marketing | 13.8 | 12.6 |
| General and administrative | 8.1 | 7.3 |
| Total operating expenses | 31.3 | 31.7 |
| Operating income (loss) | 2.6 | (2.9) |
| Financial expenses and others, net | 2.3 | 2.2 |
| Taxes on income | 0.9 | 1.0 |
| Equity loss in affiliates | 0.2 | 0.4 |
| Net loss | (0.8) | (6.5) |

Year ended December 31, 2019 compared to year ended December 31, 2020

Revenues. Revenues totaled \$262.9 million in 2020 as compared to \$285.6 million in 2019, a decrease of \$22.7 million, or 7.9%. Revenues in Latin America decreased to \$46.7 million in 2020, from \$71.4 million in 2019. Revenues in APAC decreased to \$47.7 million in 2020, from \$53.9 million in 2019. Revenues in North America decreased to \$38.2 million in 2020, from \$42.5 million in 2019. Revenues in Africa decreased to \$23.5 million in 2020, from \$25.6 million in 2019. Revenues in Europe increased to \$44.8 million in 2020, from \$42.4 million in 2019. Revenues in India increased to \$62.0 million in 2020 from \$49.7 million in 2019.

Cost of Revenues. Cost of revenues totaled \$187.2 million in 2020 as compared to \$188.7 million in 2019, a decrease of \$1.5 million, or 0.8%, attributed mainly due to:

- A decrease of \$2.2 million relates to employees' costs and travel expenses due to COVID-19 and the related restrictions.
- Decrease of \$1.0 million relates to import tax relief that was recorded during the year.

- Decrease of \$0.2 million relates to lower material costs, primarily due to lower volume of revenues; while
- Partially offset by \$1.8 million due to higher shipping and storage costs with a major increase in air freight costs as well as increase in services costs from subcontractors primarily as a results of the COVID-19 environment.
- *Gross Profit.* Gross profit as a percentage of revenues decrease to 28.8% in 2020 from 33.9% in 2019. This decrease is mainly attributed to lower revenues and high supply chain costs with an increase in air freight costs, higher material costs as a result of COVID-19 environment and a less favorable geographical and customer mix.

Research and Development Expenses, Net. Our net research and development expenses totaled \$31.0 million in 2020 as compared to \$26.8 million in 2019, resulting in an increase of \$4.2 million, or 15.7%. The increase was mainly as a result of \$3.1 million in salaries, subcontractors and related expenses, an increase of \$1.8 million write-off of intangibles and an increase of \$0.6 million due to software and hardware maintenance expenses, offset by a decrease due to deferral of \$1.0 million of expenses associated with a development project we do in collaboration with a business partner and \$0.2 million in IIA (Israel Innovation Authority) grants.

Our research and development efforts are a key element of our strategy and are essential to our success. We intend to maintain or slightly increase our commitment to research and development, and an increase or a decrease in our total revenue would not necessarily result in a proportional increase or decrease in the levels of our research and development expenditures. As a percentage of revenues, research and development expenses increased to 11.8% in 2020 compared to 9.4% in 2019.

Selling and Marketing Expenses. Selling and marketing expenses totaled \$33.0 million in 2020 as compared to \$39.5 million in 2019, a decrease of \$6.5 million, or 16.5%. This decrease was primarily attributed to the decrease of approximately \$2.4 million in travel costs, a decrease of \$1.3 million in commission expenses, a decrease of \$1.6 million in salary and related expenses, and a decrease of \$1.2 million in events and related expenses. Due to the COVID-19 pandemic, the volume of trade show and exhibit expenses and travel expenses out of the overall selling and marketing expenses was reduced compared to the same period in previous years, while certain resources were reallocated towards remote selling tools. As a percentage of revenues, selling and marketing expenses were 12.6% in 2020 compared to 13.8% in 2019.

General and Administrative Expenses. General and administrative expenses totaled \$19.2 million in 2020 as compared to \$23.3 million in 2019, a decrease of \$4.1 million, or 17.6%. The decrease was primarily due to a decrease of \$1.6 million related to expenses associated with certain strategic initiatives, a decrease of \$1.7 million related to salary and employee related, a decrease of \$0.5 million related to credit losses, a decrease of \$0.2 million related to consultants' fees and a decrease of \$0.1 million in other general and administrative expenses. As a percentage of revenues, general and administrative expenses were 7.3% in 2020 compare to 8.1% in 2019.

Financial expenses and others, Net. Financial expenses and others, net totaled \$5.9 million in 2020 as compared to \$6.5 million in 2019, a decrease of \$0.6 million, or 9.2%. This decrease was mainly attributable to a decrease of \$0.8 million resulting from bank guaranties returned to the Company, a decrease of \$0.8 million in interest expenses, offset by an increase of \$0.8 million of bank commissions and an increase of \$0.3 million related to exchange rate differences. As a percentage of revenues, financial expenses and others, net were 2.2% in 2020 compared to 2.3% in 2019.

Taxes on income. Tax expenses were \$2.6 million in 2020 as compared to tax expenses of \$2.5 million in 2019, resulting in an increase of \$0.1 million. This increase was mainly attributable to an increase of \$0.2 million of deferred taxes offset by a decrease of \$0.1 million in unrecognized tax benefits.

Net loss. In 2020, the Company had \$17.1 million in net loss as compared to net loss of \$2.3 million in 2019. As a percentage of revenues, net loss was 6.5% in 2020 compared to net loss of 0.8% in 2019. The decrease was attributable primarily to lower revenues and lower gross profit, partially offset by lower operating expenses and financial expenses and others, net.

Impact of Currency Fluctuations

The majority of our revenues are denominated in U.S. dollars, and to a lesser extent, in INR (Indian Rupee), Euro, and in other currencies. Our cost of revenues is primarily denominated in U.S. dollars as well, while a major part of our operating expenses are in New Israeli Shekel (NIS), and to a lesser extent, in Indian INR (Indian Rupee), Euro, NOK (Norwegian Kroner), BRL (Brazilian Real) and other currencies. We anticipate that a material portion of our operating expenses will continue to be in NIS.

Fluctuation in the exchange rates between any of these currencies (other than U.S. dollars) and the U.S. dollar could significantly impact our results of operations as well as the comparability of these results in different periods. Even in cases where our revenues or our expenses in a certain currency are relatively modest, high volatility of the exchange rates with the U.S. dollar can still have a significant impact on our results of operations. For example, in recent years we have suffered a significant adverse impact on our financial results due to fluctuation in the exchange rates of the U.S. dollar compared to the VEB (Venezuelan Bolivar), NGN (Nigerian Naira) and the ARS (Argentine Peso). We partially reduce this currency exposure by entering into hedging transactions. The effects of foreign currency re-measurements are reported in our consolidated statements of operations. For a discussion of our hedging transactions, please see Item 11.” QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK”.

Transactions and balances in currencies other than U.S. dollars are re-measured into U.S. dollars according to the principles in ASC Topic 830, “Foreign Currency Matters.” Gains and losses arising from re-measurement are recorded as financial income or expense, as applicable.

Effects of Government Regulations and Location on the Company’s Business

For a discussion of the effects of Israeli governmental regulation and our location in Israel on our business, see Item 4. “Information on the Company – Business Overview – Conditions in Israel” and the “Risks Relating to Operations in Israel”.

B. Liquidity and Capital Resources

Since our initial public offering in August 2000, we have financed our operations primarily through the proceeds of that initial public offering, follow-on offerings and grants from the IIA.

In March 2013, the Company was provided with the revolving Credit Facility (as defined in 4.4 of ITEM 19) 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.

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

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

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

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

In the year ended December 31, 2020 our capital expenditures were \$6.5 million, primarily for the development of our new IP-50 product families and its production lines.

As of December 31, 2020, we had approximately \$27.1 million in cash and cash equivalents.

In 2020, our \$17.2 million in cash provided by operating activities was affected by the following principal factors:

- \$12.9 million of depreciation and amortization expenses;
- \$9.9 million decrease in inventories;
- \$3.9 million increase in trade payables, other accounts payable and accrued expenses;
- \$3.0 million increase in deferred revenues paid in advance;
- \$2.7 million decrease in trade and other receivables, net;
- \$1.7 million share-based compensation expenses; and
- \$0.5 million accrued severance pay and pensions, net.

These factors were offset mainly by:

- our net loss of \$17.1 million; and
- \$0.2 million increase in deferred tax assets, net.

In 2019, our \$12.9 million in cash used in operating activities was affected by the following principal factors:

- our net loss of \$2.3 million;
- \$24.8 million decrease in trade payables and accrued expenses;
- \$9.5 million increase in inventories; and
- \$0.3 million increase in deferred tax assets, net.

These factors were offset mainly by:

- \$9.7 million of depreciation and amortization expenses;
- \$7.8 million decrease in trade and other receivables, net;
- \$4.2 million increase in deferred revenues paid in advance;
- \$2.1 million share-based compensation expenses; and
- \$0.3 million accrued severance pay and pensions, net.

Net cash used in investing activities was approximately \$6.5 million for the year ended December 31, 2020, as compared to net cash used in investing activities of approximately \$13.9 million for the year ended December 31, 2019. In the year ended December 31, 2020, our purchase of property and equipment amounted to \$6.1 million in addition to purchase of intangible assets of \$0.4 million. In the year ended December 31, 2019, our purchase of property and equipment amounted to \$11.6 million in addition to purchase of intangible assets of \$3.3 million, partially offset by proceeds from bank deposits of \$1.0 million.

Net cash used in financing activities was approximately \$7.4 million for the year ended December 31, 2020, as compared to approximately \$15.2 million net cash provided by financing activities for the year ended December 31, 2019. In the year ended December 31, 2020, our net cash used in financing activities was primarily due to our repayment of a bank loan of \$8.6 million offset by proceeds from share option exercises of \$1.2 million. In the year ended December 31, 2019, our net cash provided by financing activities was primarily due to proceeds of a bank loan of \$14.6 million and proceeds from share options exercise of \$0.6 million.

For more details concerning the Company's commitments, please see below ITEM 5. "OPERATING AND FINANCIAL REVIEW AND PROSPECTS - F. Tabular Disclosure of Contractual Obligations".

Our capital requirements are dependent on many factors, including working capital requirements to finance the business activity of the Company, and the allocation of resources to research and development, marketing and sales activities. We plan on continuing to raise capital as we may require, subject to changes in our business activities.

We believe that current working capital, cash and cash equivalent balances together with the Credit Facility available with the four financial institutions, will be sufficient for our expected requirements through at least the next 12 months.

C. Research and Development

We place considerable emphasis on research and development to improve and expand the capabilities of our existing products, to develop new products (with particular emphasis on equipment for emerging IP-based networks) and to lower the cost of producing both existing and future products. We intend to continue to devote a significant portion of our personnel and financial resources to research and development. As part of our product development process, we maintain close relationships with our customers to identify market needs and to define appropriate product specifications. In addition, we intend to continue to comply with industry standards and, in order to participate in the formulation of European standards, we are full members of the European Telecommunications Standards Institute.

Our research and development activities are conducted mainly at our facilities in Tel Aviv, Israel, and also at our subsidiaries in Greece and Romania. As of December 31, 2020, our research, development and engineering staff consisted of 247 employees. Our research and development team include highly specialized engineers and technicians with expertise in the fields of millimeter-wave design, modem and signal processing, data communications, system management and networking solutions.

Our research and development department provide us with the ability to design and develop most of the aspects of our proprietary solutions, from the chip-level, including both ASICs and RFICs, to full system integration. Our research and development projects currently in process include extensions to our leading IP-based networking product lines and development of new technologies to support future product concepts. In addition, our engineers continually work to redesign our products with the goal of improving their manufacturability and testability while reducing costs.

Intellectual Property

For a description of our intellectual property see Item 4. "INFORMATION ON THE COMPANY – B. Business Overview - Intellectual Property".

D. Trend Information

For a description of the trend information relevant to us see discussions in Parts A and B of Item 5. "OPERATING AND FINANCIAL REVIEW AND PROSPECTS".

E. Off Balance Sheet Arrangements

We are not party to any material off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent liabilities.

F. Tabular Disclosure of Contractual Obligations

| Contractual Obligations | Payments due by period (in thousands of dollars) | | | | |
|---|--|------------------|-----------|-----------|-------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Operating lease obligations ¹ | 7,845 | 3,286 | 3,345 | 626 | 588 |
| Purchase obligations ² | 20,750 | 20,750 | - | - | - |
| Other long-term commitment ³ | 5,733 | 191 | 320 | 300 | 4,922 |
| Uncertain income tax positions ⁴ | 2,421 | - | - | - | 2,421 |
| Total | 36,749 | 24,227 | 3,665 | 926 | 7,931 |

- (1) Consists of operating leases for our facilities and for vehicles.
- (2) Consists of all outstanding purchase orders for our products from our suppliers.
- (3) Our obligation for accrued severance pay under Israel's Severance Pay Law as of December 31, 2020 was approximately \$8.7 million, of which approximately \$6.0 million was funded through deposits in severance pay funds, leaving a net commitment of approximately \$2.7 million. In addition, the commitment includes a net amount of approximately \$3 million in pension accruals in other subsidiaries, mainly in Norway.
- (4) Uncertain income tax position under ASC 740-10, "Income Taxes," are due upon settlement and we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 15i of our Consolidated Financial Statements for further information regarding the Company's liability under ASC 740-10.

Effect of Recent Accounting Pronouncements

See Note 2, Significant Accounting Policies, in Notes to the Consolidated Financial Statements in Item 8 of Part II of this Report, for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on financial condition and results of operations, which is incorporated herein by reference.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table lists the name, age and position of each of our directors and executive officers during the year 2020 and as of the date of this annual report:

| Name | Age | Position |
|---------------------------------|-----|---|
| Zohar Zisapel | 72 | Chairman of the Board of Directors |
| Meir Sperling ⁽¹⁾ | 72 | Director |
| Shlomo Liran ⁽¹⁾ | 70 | Director |
| Yael Langer | 56 | Director |
| Avi Berger ⁽¹⁾ | 58 | Director |
| Avi Eizenman ⁽¹⁾ | 64 | Director |
| Ira Palti | 63 | President and Chief Executive Officer, Director |
| Ran Vered | 42 | Chief Financial Officer |
| Oz Zimerman | 57 | Executive Vice President, Global Corporate Development |
| Shai Yaniv ⁽²⁾ | 50 | Executive Vice President Marketing & 5G Business Development |
| Erez Schwartz | 57 | Executive Vice President Products |
| Guy Toibin | 49 | Executive Vice President Chief Information Officer (CIO), IT |
| Muki Bourla | 47 | Executive Vice President Global Delivery |
| Zvi Maayan | 54 | Executive Vice President, General Counsel & Corporate Secretary |
| Michal Goldstein | 50 | Executive Vice President, Global Human Resources |
| Ram Prakash Tripathi | 54 | Regional President, India |
| Amit Ancikovsky | 50 | Regional President, North America and Latin America |
| Adrian Hipkiss | 55 | Regional President, Europe and Oil & Gas |
| Mario Querner | 59 | Regional President, Asia-Pacific and Africa |
| Ulik Broida ⁽³⁾ | 54 | Executive Vice President Solutions Management |
| Nurit Kruk-Zilca ⁽⁴⁾ | 46 | Executive Vice President, Human Resources |

- (1) Independent Director
- (2) Will cease service on March 2021.
- (3) Commenced service on April 1, 2021.
- (4) Ceased service in September 2020.

Set forth below is a biographical summary of each of the above-named directors and executive officers.

Zohar Zisapel has served as the Chairman of our Board of Directors since we were incorporated in July 1996. Mr. Zisapel also serves as a director of RADCOM Ltd., a public company traded on Nasdaq. Mr. Zisapel founded or invested in many companies in the fields of Communications, Cyber Security and Automotive and serves as chairman or director of many private companies. Mr. Zisapel received a B.Sc. and a M.Sc. in electrical engineering from the Technion, Haifa Institute of Technology (“Technion”) and an M.B.A. from the Tel Aviv University.

Meir Sperling has served as our external director since June 2018. In accordance with our decision to opt out of the requirement to elect external directors, Mr. Sperling is due to end his term of service as our independent director at the earlier of (i) the end of our annual general meeting to be held in 2021, or (ii) June 12, 2021. Mr. Sperling presently serves as a board member of Verint Systems Singapore Pte. (“VSS”) and a consultant to Cognite Technologies Israel Ltd. Between 2012 and 2015, he served as a Corporate Officer and Chief Strategy Officer of Verint. Mr. Sperling received a B.Sc. in Electronic Engineering from the Ben Gurion University, Israel, in 1975.

Shlomo Liran has served as our director since August 2015, after gaining experience in senior management positions, including in the telecommunication industry. In October 2016 Mr. Liran was appointed as the CEO of Spuntech Industries Ltd. From July 2014 until January 2015, Mr. Liran served as the Chief Executive Officer of Hadera Paper Ltd. From 2010 to 2013, Mr. Liran served as the Chief Executive Officer of Avgol Nonwovens Ltd. During the years 2008 and 2009 Mr. Liran served as the Chief Executive Officer of Ericsson Israel Ltd., and from 2004 to 2007 he served as Chief Executive Officer of TRE (Scandinavian cellular network) in Sweden and in Denmark. From 2000 to 2003, he served as Chief Executive Officer of YES Satellite Multi-Channel TV. Prior to that, Mr. Liran spent thirteen years in Strauss as CEO (1995-2000), General Manager of the Dairy Division (1991-1995) and VP Operations (1987-1991). Mr. Liran holds a B.Sc. in Industrial Engineering from the Technion, an M. Eng. System Analysis from University of Toronto, Canada and an AMP-ISMP advanced management program from the Harvard Business School. Mr. Liran is one of our independent directors and is considered a “financial expert” for the purposes of the Nasdaq Rules.

Yael Langer has served as our director since December 2000. Ms. Langer served as our general counsel from July 1998 until December 2000. Ms. Langer is General Counsel and Secretary of RAD Data Communications Ltd. and other companies in the RAD-BYNET group. Since July 2009, Ms. Langer serves as a director in Radware Ltd. From December 1995 to July 1998, Ms. Langer served as Assistant General Counsel to companies in the RAD-BYNET group. From September 1993 until July 1995, Ms. Langer was a member of the legal department of Poalim Capital Markets and Investments Ltd. Ms. Langer received an LL.B. from the Hebrew University in Jerusalem.

Avraham (Avi) Berger has served as our external director since June 2018, after gaining experience in senior management positions, mostly in the telecommunication industry. In accordance with our decision to opt out of the requirement to elect external directors, Mr. Berger is due to end his term of service as our independent director at the earlier of (i) the end of our annual general meeting to be held in 2021, or (ii) June 12, 2021. From 2015 Mr. Berger is the owner and CEO of AB6C Ltd a private consulting company. From November 2013 until May 2015, Mr. Berger served as the Director General of the Israeli Ministry of Communications. During the years 2012 to 2013, Mr. Berger served as VP Marketing and business developing of Ness-TSG. From 2007 to 2012 Mr. Berger served as the VP Technology & CTO of Partner Communications Ltd., and during 2007 Mr. Berger served as VP Business Development of Tadiran Communications. From 1985 to 2006, he served in the Israel Defense Forces C4I and Cyber Branch, and Signal Corps, in a number of telecommunication and command control development and project management positions, retiring as a full colonel. Mr. Berger holds a B.Sc. in Electrical Engineering from Tel Aviv University, and M.Sc. in Electrical Engineering from UCLA. Mr. Berger is one of our independent directors.

Avi Eizenman has served as our director since June 2018. Mr. Eizenman co-founded Silicom Ltd. in 1987 and served as its President and Chief Executive Officer, as well as a director of Silicom until April 1, 2001. As from 2001, Mr. Eizenman serves as the Active Chairman of the Board of Directors of Silicom Ltd. Mr. Eizenman served as head of the ASIC department at Scitex Ltd. in 1986. From 1979 until 1985, Mr. Eizenman held various positions, including project manager, ASIC specialist and engineer, with the Electronic Research & Development Department of the Israeli Ministry of Defense. Mr. Eizenman holds a B.Sc. degree, with honors, in Electrical Engineering from the Technion, and an M.B.A. from Tel Aviv University.

Ira Palti has served as our President and Chief Executive Officer since August 2005 and as a Director since June 2018. From January 2003 to August 2005, Mr. Palti was Chief Executive Officer of Seabridge Ltd., a Siemens company that is a global leader in the area of broadband services and networks. Prior to joining Seabridge, he was the Chief Operating Officer of VocalTec Communications Ltd., responsible for sales, marketing, customer support and product development. Among the positions he held before joining VocalTec was founder of Rosh Intelligent Systems, a company providing software maintenance and AI diagnostic solutions and one of the first startups in Israel. Mr. Palti received a B.Sc. in mathematics and computer science (magna cum laude) from the Tel Aviv University.

Ran Vered has served as our Chief Financial Officer since April 2019. Having over 20 years of experience as a financial executive, Mr. Vered has extensive experience with publicly traded companies, as well as global organizations. Prior to joining Ceragon, Mr. Vered served as VP Finance at Check Point Software Technologies since 2018, and as CFO at Radcom since 2016. His career also included various financial positions at Amdocs, the latest of which was Director of Finance for the EMEA Division. Prior to 2009, Mr. Vered was co-founder and CFO of an investment fund, deputy corporate controller at Nur Macroprinters and served as an auditor for KPMG. Mr. Vered holds an M.B.A. in Finance from Tel Aviv University and a B.A. in Business Administration and Accounting from the College of Management and is certified in Israel as a CPA.

Oz Zimmerman has served as our Executive Vice President Global Corporate Development since 2014 and following Mr. Yaniv's end of tenure will also assume the global marketing responsibility. He joined the company in March 2013. Oz brings with him over 20 years of global executive business experience in sales, marketing and business development. From 2008 to 2012, Mr. Zimmerman was Corporate VP Marketing and Business Development at DSP Group (DSPG), where he penetrated world leading consumer electronic customers, acquired new technology which became the main growth engine of the company, and managed relations with top executives decision makers at world leading service providers. Prior to joining DSP Group, Oz was VP Channels Sales, Business Development and Strategic Marketing at ECI Telecom, where he defined and implemented exceptional and innovative pricing approach that generated sharp sales increase. Prior to his work at ECI, he was Engagement Manager at Shaldor, a leading management consulting firm. Mr. Zimmerman holds a B.Sc. in Industrial Engineering & Management from NYU University (summa cum laude) and a Master's degree in Business Administration & Industrial Engineering from Columbia University.

Shai Yaniv has served as our Executive Vice President of Marketing since September 2018 and commencing 2020 has assumed additional responsibilities for product management and 5G business development. Mr. Yaniv is expected to end his tenure in March 2021. From 2014 to August 2018 he served as our Vice President of Marketing and from 2009 to 2014 Mr. Yaniv served as our Vice President of Product Management. From 2000 to 2008, Mr. Yaniv served in various senior-level positions in Alvarion Ltd., successfully leading the inception of new solutions and the execution of new business initiatives in broadband wireless access markets worldwide. Mr. Yaniv brings to the Company over 25 years of experience in marketing, product strategy, product management and business development. Mr. Yaniv holds a B.Sc. in Electrical Engineering from the Technion, and an M.Sc. in Multidisciplinary Engineering from Tel-Aviv University.

Ulik Broida has served as our Vice President of Products since January 2019 and following Mr. Yaniv's end of tenure in March 2021 will join Ceragon's executive management team, and will serve as Executive Vice President Solutions Management starting in April 2021. Mr. Broida is responsible for product strategy, innovation and product management, and leads the company's Product Management and Global Sales Engineering teams to ultimately support global sales in delivering value to service providers and mission critical private networks worldwide. Mr. Broida brings over 21 years of experience in strategic marketing and product strategy in the Telecom and IIOT industry. Prior to joining Ceragon, Mr. Broida served as the VP Marketing at mPrest, where he was responsible for product management, marketing, and business development. He served as Vice President of Marketing and Business Development at RAD from 2013 to 2016 and held numerous additional VP product management roles in Wavion (2010-2013), NICE (2006-2010), Alvarion (2000-2006). Mr. Broida holds a B.Sc. in electrical engineering from the Technion, Israel's Institute of Technology, and a Master's degree in Business Administration from the Tel Aviv University.

Erez Schwartz has served as our Executive Vice President Products since 2019. In this role, Mr. Schwartz leads product development from inception and design using innovative, cutting-edge technologies, all the way to high volume production. Amongst his responsibilities are R&D, engineering and quality assurance. Mr. Schwartz brings over 30 years of experience in leading large-scale, multidisciplinary R&D organizations, business development and communication systems, with a strong focus on innovation, as well as customer needs and value. Prior to joining Ceragon, Mr. Schwartz served as SVP R&D at SatixFy, where he headed design of next generation Satellite systems. Before that, he served as VP of business development at SanDisk, leading new market exploration and ecosystem engagement; Corporate VP and G.M of the Recording BU at NICE; and CEO at Commex Technologies, a startup dealing in multicore and virtualization solutions. Prior to Commex, Mr. Schwartz led the development of cellular platform products at Intel, which was later sold to Marvell. Mr. Schwartz holds a B.Sc. (cum laude) in Electrical Engineering from the Technion, Israel's Institute of Technology.

Guy Toibin has served as our Chief Information Officer since 2017. Mr. Toibin joined Ceragon after four years with Swiss-based "Eden Springs Group", where he held the role of Group CIO and Corporate Project Management Officer (PMO). Mr. Toibin led the successful integration of Eden Springs and Nestle Waters Direct Inc. which made the Eden Group the leading water and coffee company in Europe. Prior to his tenure at Eden Springs, Mr. Toibin established Information Technology Organizations that became enablers for Business Units to meet and exceed their goals in high-tech companies such as Retalix (NCR), Verint Systems Inc., and Converse Technology. Mr. Toibin is a Certified Public Accountant (CPA), holds a B.A. in Economics and Accounting and a Masters of Law (LLM) from Bar-Ilan University.

Muki Bourla has served as our Executive Vice-President, Global Delivery since January 2020. In this role, Mr. Bourla is responsible for lifecycle delivery execution, from production through turn-key deployment, customer support and additional value-added services. Mr. Bourla brings more than 20 years of operational and business leadership, including vast international and cross-cultural experience, working with diverse customer base. Between 2009 and 2014, as part of his 15-year career at Ericsson, Mr. Bourla was based in Europe where he successfully led large scale multidisciplinary turnkey projects, system integration programs, services business development and complicated transformations, with an innovative, result oriented and proactive approach to targets, opportunities and challenges. Mr. Bourla holds a B.Sc. in Industrial and Management Engineering and an MBA in Business Management from Ben-Gurion University.

Zvi Maayan has served as our Executive Vice-President, General Counsel and Corporate Secretary since November 2019. Mr. Maayan joined Ceragon after a long and successful career at the Israel Aerospace Industries ("IAI"), where his most recent position was Executive Vice President Business Development & Subsidiaries. In this position Mr. Maayan was in charge of IAI's M&A, strategic cooperation, joint venture activities, open innovation, spinoff and carveout transactions, as well as asset management of IAI's subsidiaries portfolio. From 2008 to 2015 Mr. Maayan worked at Elbit Imaging Ltd. (TASE, NASDAQ: EMITF) ("EI"), where his latest position was Executive Vice-President, General Counsel and executive committee member. In this position he led highly complex cross-border large scale international transactions. From 2011 to 2015 Mr. Maayan served as an executive committee member at the Real Estate Division of Israel-America Chamber of Commerce. In his earlier career, Mr. Maayan was a senior associate in numerous leading law firms specializing in commercial and civil law, international commerce, banking, financing, bankruptcy, biopharmaceutical industry, real estate and litigation. Mr. Maayan is a graduate of the Bar-Ilan University (LL.B., LL.M., cum laude).

Michal Goldstein has served as our Executive Vice-President, of Human Resources since March 2020. Previous to this appointment, Ms. Goldstein served as the Chief Human Resources Officer of Contentsquare, a privately held global software company. Prior to Contentsquare, Ms. Goldstein was Vice President of Human Resources Centers of Excellence at NICE Systems (Nasdaq), as well as served in various Human Resources Business Partner positions at Amdocs, where she spent twelve years, including three years in the company's Silicon Valley office. Ms. Goldstein has a background in Organizational Development and Consulting and holds a B.A. in Psychology from the University of Haifa, Israel, and an M.Sc. in Organizational Psychology from the University of Nottingham, UK.

Ram Prakash Tripathi has served as our Regional President, India since 2002. Prior to joining Ceragon, Mr. Tripathi held senior managerial positions at several companies including Stratex and Reliance and has over 20 years of experience in the telecommunications industry. Mr. Tripathi holds a B.Sc. in Electronics & Communication Engineering from the Dr. Babasaheb Ambedkar University, in Aurangabad, Maharashtra, India.

Amit Ancikovsky serves as our Regional President, Latin America commencing 2013 and has also served as Regional President Africa between 2015 and 2020. Commencing January 1, 2020, Mr. Ancikovsky serves also as our Regional President North America. Prior to joining Ceragon, Mr. Ancikovsky held a number of management positions at Airspan Networks Inc., including President of Sales & Products. Before that, Mr. Ancikovsky served as the Chief Financial Officer and Head of Business Development for Gilat Networks Latin America, a world leader in VSAT technologies. Mr. Ancikovsky holds a B.A. in Accounting and Economics and an LL.B. from the Hebrew University in Jerusalem.

Adrian Hipkiss has served as our Regional President, Europe and Oil & Gas since January 2020, and following Mr. Yaniv's end of tenure will also assume responsibility of global 5G business development. With over thirty years of experience, Mr. Hipkiss most recently served as Vice President of Enterprise business at Tata Communications and previously as Managing Director of ShoreTel Europe helping businesses drive digital transformation agendas. Prior to this, Mr. Hipkiss led multinational and international businesses within the service provider, communications and technology sectors. Mr. Hipkiss holds a Business Administration and Management degree from the Wednesbury Business School.

Mario Querner has served as our Regional President, Asia-Pacific since October 2016 and additionally Africa since January 2020. Mr. Querner has over 25 years of international business experience in telecommunications and media, working in Europe and Asia. Prior to joining Ceragon, Mr. Querner held the position of Vice President of Asia-Pacific at Newtec, a leading provider for satellite telecommunication solutions. From 2011 to 2013, Mr. Querner served as Head of Region, South East Asia at ECI (optical transmission networks). From 2009 to 2011 he was the Head of Sales at Technicolor, formerly Thomson, in charge of APAC-EMEA for Digital Home Solutions. From 1999 to 2009, Mr. Querner held several management positions at Alcatel-Lucent, the last of which was Managing Director and Country Senior Officer in Indonesia. Mr. Querner has a degree in Electrical Engineering from the University of Applied Science in Braunschweig/Wolfenbuettel (Germany) and a degree in Business Administration from the Brunel University (United Kingdom).

Nurit Kruk-Zilca served as our Executive Vice President, Human Resources from April 2014 until September 2020. From July 2005 until March 2014, Ms. Kruk-Zilca served in various positions in our human resources department, the last one as VP Global HR, responsible for all human resources. From 2000 until July 2005 she was a talent acquisition and sourcing specialist for Intel Israel. Ms. Kruk-Zilca received a B.A. in Leadership & Education and an M.A. in Organizational Sociology from the Tel Aviv University.

Arrangements Involving Directors and Senior Management

There are no arrangements or understandings of which we are aware relating to the election of our current directors or the appointment of current executive officers in our Company. In addition, there are no family relationships among any of the individuals listed in this Section A (Directors and Senior Management).

B. Compensation

a) Aggregate Executive Compensation

During 2020, the aggregate compensation paid by us or accrued on behalf of all persons listed in Section A above (Directors and Senior Management), and other directors and executive officers who served as such during the year 2020, including Ms. Nurit Kruk-Zilca who ceased to serve in her position in September 2020 and Mr. Shai Yaniv who will cease to serve in his position on March 31, 2021, consisted of approximately \$3.6 million in salary, fees, bonuses, commissions and directors' fees and approximately \$0.6 million in amounts set aside or accrued to provide pension, retirement or similar benefits, but excluding amounts expended for automobiles made available to our officers, expenses (including business travel, professional and business association dues and expenses) reimbursed to our officers and other fringe benefits commonly reimbursed under local practices or paid by companies in Israel (all the amounts were translated to USD based on exchange rate as of December 31, 2020).

We have a performance-based bonus plan, which includes our executive officers. The plan is based on our overall performance, the particular unit performance, and individual performance. A non-material portion of the performance objectives of our executive officers are qualitative. The measurable performance objectives can change year over year, and are a combination of financial parameters, such as revenues, booking, gross profit, regional operating profit, operating income, net income and collection. The plan of our executive officers is reviewed and approved by our Compensation Committee and Board of Directors annually (and with respect to our CEO, also by our shareholders), as are any bonus payments to our executive officers made under such plan.

Cash Compensation Our directors, other than Mr. Palti, are compensated in accordance with regulations promulgated under the Companies Law concerning the remuneration of external directors (the "**Remuneration Regulations**"), as amended by the Israeli Companies Regulations (Relief for Companies with Shares Registered for Trade in a Stock Exchange Outside of Israel) (the "**Foreign Listed Regulations**"). each of them is entitled to a cash compensation in accordance with the "fixed" amounts of the annual and participation fees, as set forth in the Remuneration Regulations, based on the classification of the Company according to the amount of its capital, and to reimbursement of travel expenses for participation in a meeting, which is held outside of the director's place of residence; currently – the sum of NIS 68,778 (approximately \$21,393) as an annual fee, the sum of NIS 2,560 (approximately \$796) as an in-person participation fee, NIS 1,536 (approximately \$478) for conference call participation and NIS 1,280 (approximately \$398) for written resolutions. As the above-mentioned amounts are within the range between the fixed amounts set forth in the Remuneration Regulations and the maximum amounts set forth in the Foreign Listed Regulations, they are exempt from shareholder approval, in accordance with the Israeli Companies Regulations (Relief from Related Party Transactions) – 2000 (the "**Relief Regulations**"). These cash amounts are subject to an annual adjustment for changes in the Israeli consumer price index and to an annual adjustment in accordance with the classification of the Company according to the size of its capital. For more information, please see "*Remuneration of Directors*" and "*The Share Option Plan*" below and Note 14 to our consolidated financial statements included as Item 18 in this annual report.

Equity Compensation. In addition to the cash fees, as remuneration for their contribution and efforts as directors of the Company, and in line with the limitations set forth in our Compensation Policy with respect to equity-based compensation for non-executive directors, our directors, other than Mr. Palti, receive annual equity grants with respect to their three-year terms of service as directors, which was last approved to them by our shareholders on June 12, 2018, the date of the Company's 2018 Annual General Meeting of Shareholders (the "2018 AGM"), as follows:

(i) Zohar Zisapel, our Chairman of the Board of Directors, received 150,000 options to purchase 150,000 Ordinary Shares, 50,000 of which were granted on the date of the 2018 AGM, an additional 50,000 were granted upon the first anniversary of the 2018 AGM (i.e., on June 12, 2019), and the remaining 50,000 were granted upon the second anniversary of the 2018 AGM (i.e., on June 12, 2020);

(ii) each of Yael Langer, Shlomo Liran, Avi Eizenman, Avi Berger and Meir Sperling, directors of the Company, received options to purchase 50,000 Ordinary Shares, one-third of which (16,667 options) were granted on the date of the 2018 AGM, an additional one third (16,667 options) were granted upon the first anniversary of the 2018 AGM (i.e., on June 12, 2019), and the remaining 16,666 options shall be granted on the second anniversary of the 2018 AGM (i.e., on June 12, 2020), provided he or she are still directors of the Company at the time of such grant.

The options granted each year vested on the date of grant and their exercise price is equal to the average closing price of the Company's shares on the Nasdaq Global Select Market for the period equal to 30 consecutive trading days immediately preceding the date of grant. These options will expire 6 years after their date of grant, and were granted under the Company's Amended and Restated Share Option and RSU Plan and under the Capital Gains Route of Section 102(b)(2) of the Israeli Income Tax Ordinance (the "Ordinance"), except for the options granted to Zohar Zisapel, Chairman of the Board of Directors, which were granted under the Regular Employment Income Route of Section 3(i) of the Ordinance.

The Company does not pay its President and CEO, Mr. Ira Palti, any compensation, in cash or equity, in connection with his service as a director of the Company.

During 2020, we granted to our directors and members of our senior management detailed in Section 6A, in the aggregate, options to purchase 672,830 ordinary shares and 4,300 restricted share units ("RSUs") under our Amended and Restated Share Option and RSU Plan, with an exercise price that ranges from \$2.04 to \$2.42 per share. As of December 31, 2020, there were a total of 3,357,795 outstanding options to purchase ordinary shares and 40,151 RSUs that were held by our directors and senior management detailed in Section 6A.

b) Individual Compensation of Office Holders

The following information describes the compensation of our five most highly compensated "officer holders" (as such term is defined in the Companies Law); with respect to the year ended December 31, 2020. The five individuals for whom disclosure is provided are referred to herein as "Covered Office Holders." All amounts specified below are in terms of cost to the Company, translated to USD based on exchange rate as of December 31, 2020, and are based on the following components:

- **Salary Costs.** Salary Costs include gross salary, benefits and perquisites, including those mandated by applicable law which may include, to the extent applicable to each Covered Office Holder's, payments, contributions and/or allocations for pension, severance, car or car allowance, medical insurance and risk insurance (e.g., life, disability, accidents), phone, convalescence pay, relocation, payments for social security, and other benefits consistent with the Company's guidelines.
- **Performance Bonus Costs.** Performance Bonus Costs represent bonuses granted to the Covered Office Holder's with respect to the year ended December 31, 2020, paid in accordance with the Covered Office Holder's performance of targets as set forth in his bonus plan, as well as a proportionate amount of a retention bonus that is related to the reported year, and approved by the Company's Compensation Committee and Board of Directors.
- **Equity Costs** represent the expense recorded in our financial statements for the year ended December 31, 2020, with respect to equity-based compensation granted in 2020 and in previous years. For assumptions and key variables used in the calculation of such amounts see note 2s of our audited consolidated financial statements.
 - *Ira Palti* – CEO. Salary Costs - \$410,503; Performance Bonus Costs - \$0; Equity Costs - \$273,963;
 - *Amit Ancikovsky* – Regional President North America and Latin America. Salary Costs - \$320,051; Performance Bonus Costs - \$114,329; Equity Costs - \$100,744.
 - *Adrian Hipkiss* – Regional President of Europe and Oil & Gas. Salary Costs - \$313,144; Performance Bonus Costs - \$99,389; Equity Costs - \$25,722.
 - *Erez Schwartz* - Executive Vice President of Products. Salary Costs - \$301,138; Performance Bonus Costs - \$0; Equity Costs - \$24,706.
 - *Muki Bourla* - Executive Vice-President, Global Delivery. Salary Costs - \$243,679; Performance Bonus Costs - \$53,500 Equity Costs - \$28,396.

Compensation Policy

Under the Companies Law, we are required to adopt a compensation policy, which sets forth company policy regarding the terms of office and employment of office holders, including compensation, equity awards, severance and other benefits, exemption from liability and indemnification. Such compensation policy should take into account, among other things, providing proper incentives to office holders, management of risks by the Company, the office holder's contribution to achieving corporate objectives and increasing profits, and the function of the office holder.

Our compensation policy (the "**Compensation Policy**") is designed to balance between the importance of incentivizing office holders to reach personal targets and the need to assure that the overall compensation meets our Company's long-term strategic performance and financial objectives. The Compensation Policy provides our Compensation Committee and Board of Directors with adequate measures and flexibility to tailor each of our office holder's compensation package based, among other matters, on geography, tasks, role, seniority and capability. Moreover, the Policy is intended to motivate our office holders to achieve ongoing targeted results in addition to high-level business performance in the long term, without encouraging excessive risk taking.

The Compensation Policy and any amendments thereto must be approved by the board of directors, after considering the recommendations of the compensation committee, and by a special majority of our shareholders which should include (i) at least a majority of the shareholders who are not controlling shareholders and who do not have a personal interest in the matter, present and voting (abstentions are disregarded), or (ii) the non-controlling shareholders and shareholders who do not have a personal interest in the matter who were present and voted against the matter hold two percent or less of the voting power of the company ("**Special Majority**"). The Compensation Policy must be reviewed from time to time by the board and must be re-approved or amended by the board of directors and the shareholders no less than every three years. If the Compensation Policy is not approved by the shareholders, the compensation committee and the board of directors may nonetheless approve the policy, following further discussion of the matter and for detailed reasons.

Our Compensation Policy was originally approved by our shareholders in 2012 and was most recently revised and adopted by our shareholders at the Company's annual general meeting for the year 2020, which was held on July 20, 2020.

C. Board Practices

Corporate Governance Practices

We are incorporated in Israel and therefore are generally subject to various corporate governance practices under the Companies Law, relating to matters such as external directors, audit committee, compensation committee, internal auditor and approvals of interested parties' transactions. These matters are in addition to the ongoing listing conditions under the Nasdaq Rules and other relevant provisions of U.S. securities laws. Under applicable Nasdaq Rules, a foreign private issuer (such as the Company) may generally follow its home country rules of corporate governance in lieu of the comparable Nasdaq Rules, except for certain matters such as composition and responsibilities of the audit committee and the independence of its members. See Item 3. "KEY INFORMATION – Risk Factors – Risks Relating to Operation in Israel - *Being a foreign private issuer exempts us from certain SEC requirements and Nasdaq Rules, which may result in less protection than is afforded to investors under rules applicable to domestic issuers.*" For information regarding home country rules followed by us see Item 16G. "CORPORATE GOVERNANCE".

General Board Practices

Under the Company's Articles of Association, the Board of Directors is to consist of not less than five (5) and not more than nine (9) directors, unless otherwise determined by a resolution of the Company's shareholders. Our Board of Directors presently consists of seven (7) members. The Board of Directors retains all the powers in managing our Company that are not specifically granted to the shareholders. For example, for whatever purposes it deems fit, the Board may decide to borrow money or may set aside reserves out of our profits.

The Board of Directors may pass a resolution when a quorum is present, and by a vote of at least a majority of the directors present when the resolution is put to vote. A quorum is defined as at least a majority of the directors then in office who are lawfully entitled to participate in the meeting but not less than two directors. The Chairman of the Board is elected and removed by the board members. Minutes of the Board meetings are recorded and kept at our offices.

The Board of Directors may, subject to the provisions of the Companies Law, appoint a committee of the Board and delegate to such committee all or any of the powers of the Board, as it deems appropriate. Notwithstanding the foregoing and subject to the provisions of the Companies Law, the Board may, at any time, amend, restate or cancel the delegation of any of its powers to any of its committees. Our Board of Directors has appointed a Corporate Audit Committee under the Companies Law, a Financial Audit Committee under Nasdaq Rules, a Compensation Committee and a Nomination Committee.

Our Articles of Association provide that any director may appoint as an alternate director, by written notice to us, any individual who is qualified to serve as director and who is not then serving as a director or alternate director for any other director. An alternate director has all of the rights and obligations of a director, excluding the right to appoint an alternate for himself. Currently no alternate directors serve on our Board.

Terms and Skills of Directors

Our directors are generally elected at the annual general meeting of shareholders for a term ending on the date of the third annual general meeting following the general meeting at which they were elected, unless earlier terminated in the event of such director's death, resignation, bankruptcy, incapacity or removal. Accordingly, our currently serving directors, other than Mr. Meir Sperling and Mr. Avi Berger, serve until the date of the 2021 annual general meeting of shareholders. Mr. Meir Sperling and Mr. Avi Berger, who served as external directors until we opted out of the external director rules in accordance with the exemption provided under the Foreign Listed Regulations, serve until the earlier of (i) the end of the 2021 annual general meeting of shareholders, or (ii) June 12, 2021. Information regarding the period during which each of our directors has served in that office can be found above under the heading "Directors and Senior Management".

According to the Companies Law, a person who does not possess the skills required and the ability to devote the appropriate time to the performance of the office of director in a company, taking into consideration, among other things, the special requirements and size of that company, shall neither be appointed as a director nor serve as a director in a public company. A public company shall not convene a general meeting the agenda of which includes the appointment of a director, and a director shall not be appointed, unless the candidate has submitted a declaration that he or she possesses the skills required and the ability to devote the appropriate time to the performance of the office of director in the company, that sets forth the aforementioned skills and further states that the limitations set forth in the Companies Law regarding the appointment of a director do not apply in respect of such candidate.

A director who ceases to possess any qualification required under the Companies Law for holding the office of director or who becomes subject to any ground for termination of his/her office must inform the company immediately and his/her office shall terminate upon such notice.

Independent Directors

Under the Nasdaq Rules, the majority of our directors are required to be independent. The independence criteria under the Nasdaq Rules excludes, among others, any person who is: (i) a current or former (at any time during the past three years) employee of the company or its affiliates; or (ii) an immediate family member of an executive officer (at any time during the past three years) of the company or its affiliates.

In addition, under the Companies Law, an "independent director" is either an external director or a director appointed or classified as such who meets the same non-affiliation criteria as an external director, as determined by the company's audit committee, and who has not served as a director of the company for more than nine consecutive years. For these purposes, ceasing to serve as a director for a period of two years or less would not be deemed to sever the consecutive nature of such director's service. However, as our shares are listed on the Nasdaq Global Select Market, we may also, in accordance with the Foreign Listed Regulations, classify directors who qualify as independent directors under the relevant non-Israeli rules, as "independent directors" under the Companies Law. In addition, the Foreign Listed Regulations provide that "independent directors" may be elected for additional terms that do not exceed three years each, beyond the nine consecutive years, permitted under the Companies Law, provided that, if the director is being re-elected for an additional term or terms beyond the nine consecutive years (i) the audit committee and board of directors must determine that, in light of the director's expertise and special contribution to the board of directors and its committees, the re-election for an additional term is to the company's benefit; (ii) the director must be re-elected by the required majority of shareholders and subject to the terms specified in the Companies Law.

Currently, four of our serving directors - Messrs. Shlomo Liran, Avi Berger, Meir Sperling and Avi Eizenman – qualify and serve as independent directors under the Nasdaq Rules.

External Directors

Under the Companies Law, Israeli public companies are generally required to appoint at least two external directors. Each committee of a company's board of directors, which is authorized to exercise the board of directors' authorities, is required to include at least one external director, and the corporate audit and compensation committees must include all of the external directors. The Foreign Listed Regulations allow us, as a company whose shares are traded on Nasdaq, and does not have a controlling shareholder (within the meaning of the Companies Law) to exempt ourselves from the requirement to have external directors on our Board of Directors and from related requirements imposed by the Companies Law concerning the composition of the audit and compensation committees, provided that we continue to comply with the relevant U.S. securities laws and Nasdaq Rules applicable to U.S. domestic issuers, regarding the independence of the Board and the composition of the audit and compensation committee.

An external director who was elected to serve as such prior to the date on which the company opted to comply with the applicable U.S. securities laws and Nasdaq Rules governing the appointment of independent directors and the composition of the audit and compensation committees, as set forth above, may continue to serve out his/her term as a non-external director on the company's board of directors until the earlier of (i) the end of his/her three year term, or (ii) the second annual general meeting following the company's decision to comply with the said applicable rules, without any further action on the part of the company or its shareholders. Such director may be elected to the board of directors by the company's shareholders, but he/she would now be elected as a "regular" director (not an external director) and his/her election would be no different than the election of any other director.

On August 12, 2019, our Board of Directors resolved that commencing on the day following the date of the 2019 Annual General Meeting of Shareholders, the Company would follow the exemption from the requirement to have external directors on our Board, provided that it continues to meet the requisite requirements for said relief and unless the Board of Directors determines otherwise. Accordingly, our two former-external directors, Mr. Meir Sperling and Mr. Avi Berger, ceased to serve as such as of September 17, 2019 (the 2019 Annual General Meeting of Shareholders took place on September 16, 2019), and are now serving as our directors until the earlier of (i) the annual general meeting of shareholders to be held in 2021, or (ii) June 12, 2021 (which is the end of their three-year term of service), unless their service is earlier terminated in circumstances referred to under the Companies Law or our Articles of Association.

Financial and Accounting Expertise. Pursuant to the Companies Law and regulations promulgated thereunder, the board of directors of a publicly traded company is required to make a determination as to the minimum number of directors who must have financial and accounting expertise based, among other things, on the type of company, its size, the volume and complexity of the company's activities and the number of directors. A director with "accounting and financial expertise" is a director whose education, experience and skills qualify him or her to be highly proficient in understanding business and accounting matters, thoroughly understand the Company's financial statements and stimulating discussion regarding the manner in which financial data is presented.

Currently, Mr. Shlomo Liran, who chairs the Financial Audit Committee, is one of our independent directors and considered a "financial expert" for the purposes of the Nasdaq Rules. Mr. Shlomo Liran as well as Messrs. Zohar Zisapel, Avi Berger, Meir Sperling and Avi Eizenman satisfy the qualifications set forth for "accounting and financial expertise" as defined under the Companies Law.

Remuneration of Directors

Directors' remuneration is generally consistent with our compensation policy for office holders (see below) and generally requires the approval of the COMPENSATION COMMITTEE, THE BOARD OF DIRECTORS and the shareholders (in that order).

Notwithstanding the above, under special circumstances, the compensation committee and the board of directors may approve an arrangement that deviates from our compensation policy, provided that such arrangement is approved by a special majority of the company's shareholders, including (i) at least a majority of the shareholders, present and voting (abstentions are disregarded), who are not controlling shareholders and who do not have a personal interest in the matter, or (ii) the non-controlling shareholders and shareholders who do not have a personal interest in the matter who were present and voted against the matter hold two percent or less of the voting power of the Company.

According to the Remuneration Regulations, directors who are being compensated in accordance with such regulations are generally entitled to an annual fee, a participation fee for board or committee meetings and reimbursement of travel expenses for participation in a meeting which is held outside of the director's place of residence. The minimum, fixed and maximum amounts of the annual and participation fees are set forth in the Remuneration Regulations, and are based on the classification of the Company according to the size of its capital. Remuneration of a director who is compensated in accordance with the Remuneration Regulations, in an amount which is less than the fixed annual fee or the fixed participation fee, requires the approval of the Compensation Committee, the Board of Directors and the shareholders (in that order). A company may compensate a director (who is compensated in accordance with the Remuneration Regulations) in shares or rights to purchase shares, other than convertible debentures which may be converted into shares, in addition to the annual and the participation fees, and the reimbursement of expenses, subject to certain limitations set forth in the Remuneration Regulations.

Additionally, according to the Relief Regulations, shareholders' approval for directors' compensation and employment arrangements is not required if both the compensation committee and the board of directors resolve that either (i) the directors' compensation and employment arrangements are solely for the benefit of the company or (ii) the remuneration to be paid to any such director does not exceed the maximum amounts set forth in the Foreign Listed Regulations. Further, according to the Relief Regulations, shareholders' approval for directors' compensation and employment arrangements is not required if (i) both the compensation committee and the board of directors resolve that such terms are not more beneficial than the former terms, or are essentially the same in their effect, and are in line with the company's compensation policy; and (ii) such terms are brought for shareholder approval at the next general meeting of shareholders.

Neither we nor any of our subsidiaries have entered into a service contract with any of our current directors that provides for benefits upon termination of their service as directors.

For a full discussion of the remuneration paid to our directors see above in "B. Compensation a) Aggregate Executive Compensation".

Committees of the Board of Directors

Financial Audit Committee

In accordance with the rules of the SEC under the Exchange Act and under Nasdaq Rules, we are required to have an audit committee consisting of at least three directors, each of whom (i) is independent; (ii) does not receive any compensation from the Company (other than directors' fees); (iii) is not an affiliated person of the Company or any of its subsidiaries; (iv) has not participated in the preparation of the Company's (or subsidiary's) financial statements during the past three years; and (v) is financially literate and one of whom has been determined by the board to be a financial expert. The duties and responsibilities of the Financial Audit Committee include: (i) recommending the appointment of the Company's independent auditor to the Board of Directors, determining its compensation and overseeing the work performed by it; (ii) pre-approving all services of the independent auditor; (iii) overseeing our accounting and financial reporting processes and the audits of our financial statements; and (iv) handling complaints relating to accounting, internal controls and auditing matters. Nonetheless, under the Companies Law, the appointment of the Company's independent auditor requires the approval of the shareholders and its compensation requires the approval of our Board of Directors.

As of the date hereof, Messrs. Shlomo Liran, Avi Berger and Meir Sperling serve on our Financial Audit Committee, each of whom has been determined by the Board to meet the Nasdaq Rules and SEC standards described above, and with Mr. Liran serving as chairman of such committee and as its financial expert. See Item 16A. "AUDIT COMMITTEE FINANCIAL EXPERT" below. We have adopted an Audit Committee charter as required under the Nasdaq Rules.

Corporate Audit Committee

We maintain a Corporate Audit Committee which is our audit committee for the purposes of the Companies Law; the duties and responsibilities of our Corporate Audit Committee include: (i) identifying of irregularities and deficiencies in the management of our business, in consultation with the internal auditor and our independent auditor, and suggesting appropriate courses of action to amend such irregularities; (ii) reviewing and approving certain transactions and actions of the Company, including the approval of related party transactions that require approval by the audit committee under the Companies Law; defining whether certain acts and transactions that involve conflicts of interest are material or not and whether transactions that involve interested parties are extraordinary or not, and to approve such transactions; (iii) establishing procedures to be followed with respect to related party transactions with a "controlling shareholder" (where such are not extraordinary transactions), which may include, where applicable, the establishment of a competitive process for such transaction, under the supervision of the audit committee, or individual, or other committee or body selected by the audit committee, in accordance with criteria determined by the audit committee; (iv) determining procedures for approving certain related party transactions with a "controlling shareholder", which were determined by the audit committee not to be extraordinary transactions, but which were also determined by the audit committee not to be negligible transactions, recommending the appointment of the internal auditor and its compensation to the Board of Directors; (v) examining the performance of our internal auditor and whether it is provided with the required resources and tools necessary for him to fulfill its role, considering, inter alia, the Company's size and special needs; (vi) examining the independent auditor's scope of work as well as his fees and providing its recommendations to the appropriate corporate organ; (vii) overseeing the accounting and financial reporting processes of the Company; (viii) setting procedures for handling complaints made by the Company's employees in connection with management deficiencies and the protection to be provided to such employees; and (ix) performing such other duties that are or will be designated solely to the audit committee in accordance with the Companies Law and the Company's Articles of Association.

The Corporate Audit Committee composition requirements referred to under Section 115 of the Companies Law are not applicable to the Company as the Board of Directors, as part of its decision to opt out of the requirement to appoint external directors, as provided for under the Foreign Listed Regulations, also adopted relief from such composition requirements on the basis that the Company complies, and will continue to comply, with the relevant U.S. securities laws and Nasdaq Rules applicable to U.S. domestic issuers, regarding the independence of the Board and the composition of the audit and compensation committees.

As of the date hereof, Messrs. Shlomo Liran, Avi Berger and Meir Sperling serve on our Corporate Audit Committee, each of whom has been determined by the Board to meet the Nasdaq Rules and SEC standards described under the Financial Audit Committee section above, and Mr. Berger serves as its chairman.

Compensation Committee

Under the Nasdaq Rules, the compensation payable to our executive officers must be determined or recommended to the board for determination either by a majority of the independent directors on the board, in a vote in which only independent directors participate, or by a compensation committee consisting of at least two independent directors (as defined under the Nasdaq Rules). Each compensation committee member must also be deemed by our Board of Directors to meet the enhanced independence requirements for members of the compensation committee under the Nasdaq Rules, which requires, among other things, that our Board of Directors consider the source of each such committee member's compensation in considering whether he or she is independent.

According to the Companies Law, the board of directors of any Israeli public company must appoint a compensation committee, which is responsible for: (i) making recommendations to the Board of Directors with respect to the approval of the compensation policy (see below) and any extensions thereto; (ii) periodically reviewing the implementation of the compensation policy and providing the Board of Directors with recommendations with respect to any amendments or updates thereto; (iii) reviewing and resolving whether or not to approve arrangements with respect to the terms of office and employment of office holders; and (iv) determining whether or not to exempt under certain circumstances a transaction with a candidate for CEO, who is not affiliated with the Company or its controlling shareholders, from shareholder approval, and provided that the terms approved are consistent with the compensation policy. Under the Companies Law, the Compensation Committee may need to seek the approval of the Board of Directors and the shareholders for certain compensation-related decisions. See "Item 6 - Directors, Senior Management and Employees – B. Compensation".

In addition, our Compensation Committee administers our Amended and Restated Share Option and RSU Plan. The Board has delegated to the Compensation Committee the authority to grant options and RSUs under this plan and to act as the share incentive committee pursuant to this plan, provided that such grants are within the framework determined by the Board, and that the grant of equity compensation to our office holders is also approved by our board.

The Compensation Committee composition requirements referred to under Section 118A of the Companies Law are not applicable to the Company as the Board of Directors, as part of its decision to opt out of the requirement to appoint external directors, as provided for under the Foreign Listed Regulations, also adopted relief from such composition requirements on the basis that the Company complies, and will continue to comply, with the relevant U.S. securities laws and Nasdaq Rules applicable to U.S. domestic issuers, regarding the independence of the Board and the composition of the audit and compensation committees.

Messrs. Liran, Berger, Sperling and Eizenman serve on our Compensation Committee, each of whom meets the above-mentioned qualification requirements set forth under the Nasdaq Rules, and Mr. Sperling serves as its chairman.

Nomination Committee

The Nasdaq Rules require that director nominees be selected or recommended for the board's selection either by a nomination committee composed solely of independent directors, or by a majority of independent directors, in a vote in which only independent directors participate, subject to certain exceptions. Currently, Messrs. Shlomo Liran and Avi Eizenman, two of our independent directors, are the members of our Nomination Committee, which recommends director nominees for our Board's approval.

Approval of Office Holders Terms of Employment

The terms of office and employment of office holders (other than directors and the CEO) require the approval of the compensation committee and then of the board of directors, provided such terms are in accordance with the company's compensation policy. If terms of employment of such office holder are not in accordance with the compensation policy, then shareholder approval is also required following the approval of the compensation committee and board of directors after having taken into account the various policy considerations and mandatory requirements set forth in the Companies Law with respect to office holders' compensation. However, in special circumstances the compensation committee and then the board of directors may nonetheless approve such terms of office and employment, even if they were not approved by the shareholders, following a further discussion and for detailed reasoning. In addition, the Relief Regulations provide that non-material changes to the terms of office of office holders who are subordinated to the company's CEO will require only CEO approval, provided that the company's compensation policy includes a reasonable range for such non-material changes.

The terms of office and employment of a CEO, regardless of whether such terms conform to the company's compensation policy, must be approved by the compensation committee, the board of directors and then by a special majority of the shareholders, including: (i) a majority of the shareholders, who are not controlling shareholders and who do not have a personal interest in the matter, present and voting (abstentions are disregarded); or (ii) the non-controlling shareholders and shareholders who do not have a personal interest in the matter, who were present and voted against the matter hold two percent or less of the voting power of the Company.

Notwithstanding the above, in special circumstances the compensation committee and then the board of directors may nonetheless approve compensation for the CEO, even if such compensation was not approved by the shareholders, following a further discussion and for detailed reasoning. In addition, under certain circumstances, a company's compensation committee may exempt the terms of office and employment of a candidate for the position of CEO from shareholders' approval, provided that the candidate is not a director and that the terms of office are compliant with the company's compensation policy.

Amendment of existing terms of office and employment of office holders who are not directors, including chief executive officers, require the approval of the compensation committee only, if the compensation committee determines that the amendment is not material.

The terms of office and employment of directors, regardless of whether such terms conform to the company's compensation policy, must be approved by the compensation committee, the board of directors and then by the shareholders, and, in case that such terms are inconsistent with the company's compensation policy, such shareholders' approval must be obtained by the special majority detailed above with respect to the CEO.

However, and as referred to above with respect to remuneration of directors, according to the Relief Regulations, a company's compensation committee and board of directors are permitted to approve terms of office and employment of a CEO or of a director, without convening a general meeting of shareholders, provided however, that such terms: (i) are not more beneficial than the former terms, or are essentially the same in their effect; (ii) are in line with the company's compensation policy; and (iii) are brought for shareholder approval at the next general meeting of shareholders. In addition, a company's compensation committee and board of directors are permitted to approve the terms of office of a director, without convening a general meeting of shareholders, provided that such terms are only beneficial to the company or that such terms are in compliance with the terms set forth in the Remuneration Regulations.

Approval of Certain Transactions with Related Parties

The Companies Law requires the approval of the corporate audit committee or the compensation committee, thereafter, the approval of the board of directors and in certain cases the approval of the shareholders, in order to effect specified actions and extraordinary transactions such as the following:

- transactions with office holders and third parties, where an office holder has a personal interest in the transaction;
- employment terms of office holders; and
- extraordinary transactions with controlling parties, and extraordinary transactions with a third party where a controlling party has a personal interest in the transaction, or any transaction with the controlling shareholder or his relative regarding terms of service provided directly or indirectly (including through a company controlled by the controlling shareholder) and terms of employment (for a controlling shareholder who is not an office holder). A "relative" is defined in the Companies Law as spouse, sibling, parent, grandparent, descendant, spouse's descendant, sibling or parent and the spouse of any of the foregoing.

Further, such extraordinary transactions with controlling shareholders require the approval of the corporate audit committee or the compensation committee, the board of directors and the majority of the voting power of the shareholders present and voting at the general meeting of the company (not including abstentions), provided that either:

- the majority of the shares of shareholders who have no personal interest in the transaction and who are present and voting, not taking into account any abstentions, vote in favor; or
- shareholders who have no personal interest in the transaction who vote against the transaction do not represent more than two percent of the aggregate voting rights in the company.

The Companies Law extends the disclosure requirements applicable to an office holder (as detailed below) to a controlling shareholder in a public company. Any shareholder participating in the vote on approval of an extraordinary transaction with a controlling shareholder must inform the company prior to the voting whether or not he or she has a personal interest in the approval of the transaction, and if he or she fails to do so, his or her vote will be disregarded.

Further, such extraordinary transactions as well as any transactions with a controlling shareholder or his relative concerning terms of service or employment need to be re-approved once every three years, provided however that with respect to certain such extraordinary transactions the corporate audit committee may determine that a longer duration is reasonable given the circumstances related thereto and such extended period has been approved by the shareholders.

In accordance with the Relief Regulations, certain defined types of extraordinary transactions between a public company and its controlling shareholder(s) are exempt from the shareholder approval requirements.

The approval of the corporate audit committee, followed by the approval of the board of directors and the shareholders, is required to effect a private placement of securities, in which either: (i) 20% or more of the company's outstanding share capital prior to the placement is offered, and the payment for which (in whole or in part) is not in cash, in tradable securities registered in a stock exchange or not under market terms, and which will result in: (a) an increase of the holdings of a shareholder that holds 5% or more of the company's outstanding share capital or voting rights; or (b) will cause any person to become, as a result of the issuance, a holder of more than 5% of the company's outstanding share capital or voting rights; or (ii) a person will become a controlling shareholder of the company.

A “controlling party” is defined in the Israeli Securities Law and in the Companies Law, for purposes of the provisions governing related party transactions, as a person with the ability to direct the actions of a company but excluding a person whose power derives solely from his or her position as a director of the company or any other position with the company, and with respect to approval of transactions with related parties also a person who holds 25% or more of the voting power in a public company if no other shareholder owns more than 50% of the voting power in the company, and provided that two or more persons holding voting rights in the company, who each have a personal interest in the approval of the same transaction, shall be deemed to be one holder for the purpose of evaluating their holdings with respect to approvals of transactions with related parties.

Compensation committee approval is also required (and thereafter, the approval of the board of directors and in certain cases – the approval of the shareholders) to approve the grant of an exemption from the responsibility for a breach of the duty of care towards the company, for the provision of insurance and for an undertaking to indemnify any office holder of the company; see below under “*Exemption, Insurance and Indemnification of Directors and Officers*”.

Duties of Office Holders and Shareholders

Duties of Office Holders

Fiduciary Duties. The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company, including directors. The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances, and requires office holders to use reasonable means to obtain (i) information regarding the business advisability of a given action brought for the office holders’ approval or performed by the office holders by virtue of their position, and (ii) all other information of importance pertaining to the aforesaid actions. The duty of loyalty includes avoiding any conflict of interest between the office holder’s position in the company and his personal affairs, avoiding any competition with the company, avoiding the exploitation of any business opportunity of the company in order to receive personal advantage for himself or others, and revealing to the company any information or documents relating to the company’s affairs which the office holder has received due to his position as an office holder.

The company may approve an action by an office holder from which the office holder would otherwise have to refrain due to its violation of the office holder’s duty of loyalty if: (i) the office holder acts in good faith and the act or its approval is not to the detriment of the company, and (ii) the office holder discloses the nature of his or her interest in the transaction to the company a reasonable time prior to the company’s approval.

Each person listed in the table above under “Directors and Senior Management” is considered an office holder under the Companies Law.

Disclosure of Personal Interests of an Office Holder. The Companies Law requires that an office holder of a company promptly disclose any personal interest that he or she may have, and all related material information and documents known to him or her relating to any existing or proposed transaction by the company. If the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by the office holder’s spouse, siblings, parents, grandparents, descendants, spouse’s siblings, parents and descendants and the spouses of any of these people, or any corporation in which the office holder: (i) holds at least 5% of the company’s outstanding share capital or voting rights; (ii) is a director or chief executive officer; or (iii) has the right to appoint at least one director or the chief executive officer. An extraordinary transaction is defined as a transaction that is either: (i) not in the ordinary course of business; (ii) not on market terms; or (iii) likely to have a material impact on the company’s profitability, assets or liabilities.

In the case of a transaction which is not an extraordinary transaction, after the office holder complies with the above disclosure requirements, only board approval is required unless the articles of association of the company provide otherwise. The transaction must not be adverse to the company’s interest. If a transaction is an extraordinary transaction, or concerns the terms of office and employment, then, in addition to any approval stipulated by the articles of association, it must also be approved by the company’s audit committee (or with respect to terms of office and employment, by the compensation committee) and then by the board of directors, and, under certain circumstances, by shareholders of the company.

A person with a personal interest in any matter may not generally be present at any audit committee, compensation committee or board of directors meeting where such matter is being considered, and if he or she is a member of the committee or a director, he or she may not generally vote on such matter at the applicable meeting.

Duties of Shareholders

Under the Companies Law, a shareholder has a duty to: (i) act in good faith toward the company and other shareholders; and (ii) refrain from abusing his or her power in the company, including, among other things, voting in a general meeting of shareholders with respect to the following matters: (a) any amendment to the articles of association; (b) an increase of the company's authorized share capital; (c) a merger; or (d) approval of interested party transactions which require shareholders' approval.

In addition, any controlling shareholder, or any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of a company's articles of association, has the power to appoint or prevent the appointment of an office holder in the company, is under a duty to act with fairness towards the company. The Companies Law does not describe the substance of this duty but states that the remedies generally available upon a breach of contract, will also apply in the event of a breach of the duty of fairness, taking into account such shareholder's position.

Exemption, Insurance and Indemnification of Directors and Officers

The Companies Law provides that companies like ours may indemnify their officers and directors and purchase an insurance policy to cover certain liabilities, if provisions for that purpose are included in their articles of association.

Our Articles of Association allow us to indemnify and insure our office holders to the fullest extent permitted by law.

Office Holders' Exemption

Under the Companies Law, an Israeli company may not exempt an office holder from liability for a breach of his or her duty of loyalty, but may exempt in advance an office holder from his or her liability to the company, in whole or in part, for a breach of his or her duty of care (except in connection with distributions), provided that the articles of association allow it to do so. Our Articles of Association allow us to exempt our office holders to the fullest extent permitted by law.

Office Holders' Insurance

Our Articles of Association provide that, subject to the provisions of the Companies Law, we may enter into a contract for the insurance of all or part of the liability imposed on our office holder in respect of an act or omission performed by him or her in his or her capacity as an office holder, regarding each of the following:

- a breach of his or her duty of care to us or to another person;
- a breach of his or her duty of loyalty to us, provided that the office holder acted in good faith and had reasonable cause to assume that his or her act would not prejudice our interests;
- monetary liabilities or obligations imposed upon him or her in favor of another person; and/or
- any other event, occurrence or circumstance in respect of which we may lawfully insure an office holder.

Without derogating from the aforementioned, subject to the provisions of the Companies Law and the Israeli Securities Law, we may also enter into a contract to insure an office holder, in respect of expenses, including reasonable litigation expenses and legal fees, incurred by an office holder in relation to an administrative proceeding instituted against such office holder or payment required to be made to an injured party, pursuant to certain provisions of the Israeli Securities Law.

Office Holder's Indemnification

Our Articles of Association provide that, subject to the provisions of the Companies Law and the Israeli Securities Law, we may indemnify any of our office holders for an obligation or expense specified below, imposed on or incurred by the office holder in respect of an act or omission performed in his or her capacity as an office holder, as follows:

- a financial liability imposed on him or her in favor of another person by any judgment, including a settlement or an arbitration award approved by a court.
- reasonable litigation expenses, including attorney's fees, incurred by the office holder as a result of an investigation or proceeding instituted against him by a competent authority which concluded without the filing of an indictment against him and without the imposition of any financial liability in lieu of criminal proceedings, or which concluded without the filing of an indictment against him but with the imposition of a financial liability in lieu of criminal proceedings concerning a criminal offense that does not require proof of criminal intent or in connection with a financial sanction (the phrases "proceeding concluded without the filing of an indictment" and "financial liability in lieu of criminal proceeding" shall have the meaning ascribed to such phrases in section 260(a)(1a) of the Companies Law);
- reasonable litigation expenses, including attorneys' fees, expended by an office holder or charged to the office holder by a court, in a proceeding instituted against the office holder by the Company or on its behalf or by another person, or in a criminal charge from which the office holder was acquitted, or in a criminal proceeding in which the office holder was convicted of an offense that does not require proof of criminal intent;
- expenses, including reasonable litigation expenses and legal fees, incurred by an office holder in relation to an administrative proceeding instituted against such office holder, or payment required to be made to an injured party, pursuant to certain provisions of the Securities Law; and/or
- any other event, occurrence or circumstance in respect of which we may lawfully indemnify an office holder.

The Company may undertake to indemnify an office holder as aforesaid: (a) prospectively, provided that, in respect of the first act (financial liability) the undertaking is limited to events which in the opinion of the Board of Directors are foreseeable in light of the Company's actual operations when the undertaking to indemnify is given, and to an amount or criteria set by the Board of Directors as reasonable under the circumstances, and further provided that such events and amount or criteria are set forth in the indemnification undertaking; and (b) retroactively.

Limitations on Insurance and Indemnification

The Companies Law provides that a company may not exempt or indemnify an office holder nor enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his or her duty of loyalty, except that the company may enter into an insurance contract or indemnify an office holder if the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his or her duty of care, if such breach was intentional or reckless, but unless such breach was solely negligent;
- any act or omission intended to derive an illegal personal benefit; or
- any fine, civil fine, financial sanction or monetary settlement in lieu of criminal proceedings imposed on such office holder.

In addition, under the Companies Law, exemption and indemnification of, and procurement of insurance coverage for, our office holders must be approved by our Compensation Committee and our Board of Directors and, with respect to an office holder who is CEO or a director, also by our shareholders. However, according to the Relief Regulations, shareholders' and Board approvals for the procurement of such insurance coverage are not required if the insurance policy is approved by our Compensation Committee and: (i) the terms of such policy are within the framework for insurance coverage as approved by our shareholders and set forth in our Compensation Policy; (ii) the premium paid under the insurance policy is at fair market value; and (iii) the insurance policy does not and may not have a substantial effect on the Company's profitability, assets or obligations.

Our Insurance and Indemnification

Indemnification letters, covering indemnification and insurance of those liabilities imposed under the Companies Law and the Israeli Securities Law, as discussed above, were granted to each of our present office holders and were approved for any future office holders.

In addition, in accordance with an amendment made to our Compensation Policy in July 2020, we are currently entitled to hold directors' and officers' liability insurance policy for the benefit of our office holders, with insurance coverage of up to \$45 million and with an annual premium of up to \$2,000,000, plus an additional annual premium of up to \$300,000 for claims associated with M&A transactions.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons, we have been advised that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Administrative Enforcement

As detailed above, under the Israeli Securities Law, a company cannot obtain insurance against or indemnify a third party (including its officers and/or employees) for any administrative procedure and/or monetary fine (other than for payment of damages to an injured party). The Israeli Securities Law permits insurance and/or indemnification for expenses related to an administrative procedure, such as reasonable legal fees, provided that it is permitted under the company's articles of association.

We have adopted and implemented an internal enforcement plan to reduce our exposure to potential breaches of sections in the Companies Law and in the Israeli Securities Law applicable to us. Our Articles of Association and letters of indemnification permit, among others, insurance and/or indemnification as contemplated under the Israeli Securities Law (see "*Exemption, Insurance and Indemnification of Directors and Officers*" above).

Internal Auditor

Under the Companies Law, the board of directors of a public company must appoint an internal auditor proposed by the corporate audit committee (see under "Committees of the Board of Directors" – "Corporate Audit Committee", above). The internal auditor may be an employee of the company but may not be an interested party, an office holder or a relative of the foregoing, nor may the internal auditor be the company's independent accountant or its representative. The role of the internal auditor is to examine, among other things, whether the company's actions comply with applicable law, integrity and orderly business procedure. The internal auditor has the right to request that the chairman of the corporate audit committee convene a corporate audit committee meeting, and the internal auditor may participate in all corporate audit committee meetings. The internal auditor's tenure cannot be terminated without his or her consent, nor can he or she be suspended from such position unless the board of directors has so resolved after hearing the opinion of the corporate audit committee and after providing the internal auditor with the opportunity to present his or her position to the board of directors and to the corporate audit committee.

We have appointed the firm of Chaikin, Cohen, Rubin & Co., Certified Public Accountants (Isr.) as our internal auditor. Our internal auditor meets the independence requirements of the Companies Law, as detailed above.

D. Employees

As of December 31, 2020, we had 1,019 employees worldwide. Among our employees, 247 were employed in research, development and engineering, 630 in sales and marketing including services and supporting functions, 36 in management and administration and 106 in operations. Out of our employees, 305 were based in Israel, 37 were based in the United States, 229 were based in EMEA (not including Israel), 189 were based in Latin America and 78 were based in Asia Pacific.

In addition, during 2020 we have employed an average of 149 temporary employees, primarily in India, supporting the projects we have won in this country. Most of the costs of these temporary employees were included in the cost of revenues in our financial statement.

We and our Israeli employees are not parties to any collective bargaining agreements. However, with respect to such employees, we are subject to Israeli labor laws, regulations and collective bargaining agreements applicable to us by extension orders of the Israeli Ministry of Social Affairs and Social Services, as are in effect from time to time. Generally, we provide our employees with benefits and working conditions above the legally required minimums.

Israeli law generally and applicable extension orders require severance pay upon the retirement or death of an employee or termination without due cause, payment to pension funds or similar funds in lieu thereof and require us and our employees to make payments to the National Insurance Institute, which is similar to the U.S. Social Security Administration. Such amounts also include payments by the employee for mandatory health insurance.

Substantially all our employment agreements include employees' undertakings with respect to non-competition, assignment to us of intellectual property rights developed in the course of employment and confidentiality. However, it should be noted that the enforceability of non-competition undertakings is rather limited under the local laws in certain jurisdictions, including Israel.

To date, we have not experienced labor-related work stoppages and believe that our relations with our employees are good.

The employees of our other subsidiaries are subject to local labor laws and regulations that vary from country to country. In certain locations such as Brazil and Norway we are a party to collective bargaining agreements.

Share Ownership

The following table sets forth certain information regarding the ordinary shares owned, and stock options held, by our directors and senior management as of February 28, 2021. The percentage of outstanding ordinary shares is based on 83,301,361 ordinary shares outstanding as of February 28, 2021 that consists, for the purpose of the below calculation and presentation, ordinary shares and options to purchase ordinary shares which are vested or shall become vested within 60 days of February 28, 2021.

| Name | Number of Ordinary Shares ⁽¹⁾ | Percentage of Outstanding Ordinary Shares | Number of Stock Options Held ⁽²⁾ | Exercise price of Options | Number of RSUs Held ⁽²⁾ |
|---|--|---|---|---------------------------|------------------------------------|
| Zohar Zisapel ⁽³⁾ | 7,117,174 | 8.51 | 300,000 | \$ 2.02 – 8.54 | - |
| Ira Palti | 768,752 | 0.91 | 900,000 | \$ 2.41 – 9.01 | - |
| All directors and senior management as a group consisting of 19 people ⁽⁴⁾ | 8,282,405 | 9.77 | 2,436,867 | \$ 2.02 – 9.01 | 40,151 |

- (1) Consists of ordinary shares and options to purchase ordinary shares which are vested or shall become vested within 60 days of February 28, 2021.
- (2) Each stock option is exercisable into one ordinary share and expires between 6 and 10 years from the date of its grant. Of the number of stock options listed, 300,000, 768,752 and 1,457,131 options, are vested or shall become vested within 60 days of February 28, 2021 for Mr. Zisapel, Mr. Palti and all directors and senior management as a group, respectively. 8,100 RSUs are expected to vest within 60 days of February 28, 2021.
- (3) The number of ordinary shares held by Zohar Zisapel includes (i) 3,594,986 ordinary shares held by Zohar Zisapel; (ii) 300,000 ordinary shares issuable upon the exercise of options granted to Mr. Zisapel, exercisable as of February 28, 2021 or within 60 days thereafter; (iii) 1,101,245 ordinary shares are held of record by Lomsha Ltd., an Israeli company controlled by Mr. Zisapel; (iv) 18,717 ordinary shares are held by RAD Data Communications Ltd., an Israeli company of which Mr. Zisapel is a principal shareholder and a director; and (v) 2,102,226 Ordinary Shares are held by Michael and Klil Holdings (93) Ltd., an Israeli company controlled by Mr. Zisapel. The number of ordinary shares beneficially held by Zohar Zisapel is based on a Schedule 13D/A filed by Mr. Zisapel with the SEC on February 16, 2021.
- (4) Each of the directors and senior management other than Messrs. Zohar Zisapel and Ira Palti, beneficially owns less than 1% of the outstanding ordinary shares as of February 28, 2021 (including options held by each such person and which are vested or shall become vested within 60 days of February 28, 2021) and have therefore not been separately listed.

Stock Option Plan

The Amended and Restated Share Option and RSU Plan

In September 2003, our shareholders approved and adopted our 2003 share option plan, designed to grant options pursuant to Section 102 or 3(i) of the Ordinance, and to be a “qualified plan” as defined by U.S. tax law. Our worldwide employees, directors, consultants and contractors are eligible to participate in this plan. Our Compensation Committee of our Board of Directors administers the plan. Generally, options granted under this plan expire between six to ten years from the date of grant. In addition, our Board of Directors has sole discretion to determine, in the event of a transaction with another corporation, as defined in the plan, that each option shall either: (i) be substituted for an option to purchase securities of the other corporation; (ii) be assumed by the other corporation; or (iii) automatically vest in full. In the event that all or substantially all of the issued and outstanding share capital of the company shall be sold, each option holder shall be obligated to participate in the sale and to sell his/her options at the price equal to that of any other share sold.

In September 2010, our Board of Directors amended the share option plan so as to enable the grant of RSUs pursuant to such plan (the “**Amended and Restated Share Option and RSU Plan**”, or the “**Plan**”).

In December 2012, our Board of Directors extended the Plan for an additional ten-year period through December 31, 2022. The Plan has been approved by the Israeli Tax Authority as required by applicable law. The following tables present information regarding option and RSU grants under the Plan as of December 31, 2020.

| Cumulative Ordinary Shares Reserved for Option and RSU Grants (1) | Remaining Reserved Shares Available for Option and RSU Grants | Options and RSUs Outstanding (2) | Weighted Average Exercise Price (3) |
|--|--|---|--|
| 24,895,688 | 1,133,883 | 6,548,715 | \$ 3.52 |

- (1) Total of 2,390,971 relates to RSU grants and 22,504,717 relates to options grants
- (2) Total of 309,986 relates to RSUs outstanding and 6,238,729 relates to options outstanding
- (3) Weighted average price refers only to options

The following table presents certain option and RSU grant information concerning the distribution of options and RSUs (granted under the Plan) among directors and employees of the Company as of December 31, 2020:

| | Options and RSUs Outstanding | Unvested Options and RSUs |
|---------------------------------|-------------------------------------|----------------------------------|
| Directors and senior management | 3,397,946 | 1,152,488 |
| All other grantees | 3,150,769 | 1,379,710 |

Subject to applicable law, our Board of Directors may amend the Plan, provided that any action by our Board of Directors which will alter or impair the rights or obligations of an option holder requires the prior consent of that option holder. Our board last amended the Plan in August 2014, extending the authority originally granted to our Compensation Committee to provide grantees, in their notice of grant, with a “Double Trigger” acceleration mechanism upon the occurrence of certain events.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The following table sets forth stock ownership information as of February 28, 2021 (unless otherwise noted below) with respect to each person who is known by us to be the beneficial owner of more than 5% of our outstanding ordinary shares, based on information provided to us by the holders or disclosed in public filings with the SEC.

Except where otherwise indicated, and except pursuant to community property laws, we believe, based on information furnished by such owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such shares. The shareholders listed below do not have any different voting rights from any of our other shareholders. We know of no arrangements which would, at a subsequent date, result in a change in control of our company.

Total shares beneficially owned in the table below include shares that may be acquired upon the exercise of options that are exercisable within 60 days. The shares that may be issued under these options are treated as outstanding only for purposes of determining the percent owned by the person or group holding the options but not for the purpose of determining the percentage ownership of any other person or group. Each of our directors and officers who is also a director or officer of an entity listed in the table below disclaims ownership of our ordinary shares owned by such entity.

| Name | Number of Ordinary Shares ⁽²⁾ | Percentage of Outstanding Ordinary Shares ⁽¹⁾ |
|----------------------------------|--|--|
| Zohar Zisapel ⁽³⁾ | 7,117,174 | 8.54% |
| Joseph D. Samberg ⁽⁴⁾ | 8,100,065 | 9.72% |

- (1) Based on 83,301,361 ordinary shares outstanding as of February 28, 2021, excluding options to purchase ordinary shares which are vested or shall become vested within 60 days of February 28, 2021.
- (2) Consists of ordinary shares and options to purchase ordinary shares, which are vested or shall become vested within 60 days as of February 28, 2021.
- (3) (i) 3,594,986 ordinary shares held by Zohar Zisapel; (ii) 300,000 ordinary shares issuable upon the exercise of options granted to Mr. Zisapel exercisable as of February 28, 2021 or within 60 days thereafter; (iii) 1,101,245 ordinary shares are held of record by Lomsha Ltd., an Israeli company controlled by Mr. Zisapel; (iv) 18,717 ordinary shares are held by RAD Data Communications Ltd., an Israeli company of which Mr. Zisapel is a principal shareholder and a director. Mr. Zisapel and his brother, Mr. Yehuda Zisapel, and Ms. Nava Zisapel, have shared voting and dispositive power with respect to the ordinary shares held by RAD Data Communications Ltd.; and (v) 2,102,226 Ordinary Shares are held by Michael and Klil Holdings (93) Ltd., an Israeli company controlled by Mr. Zisapel. The number of ordinary shares beneficially held by Zohar Zisapel is based on a Schedule 13G/A filed by Mr. Zisapel with the SEC on February 16, 2021.
- (4) Joseph D. Samberg’s address is 1091 Boston Post Road, Rye, NY 10580.

As of February 28, 2021, approximately 97% of our ordinary shares were registered for trade and held in the United States and there were 26 record holders with addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside due to the fact that many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 97% of our outstanding ordinary shares as of said date).

Related Party Transactions

Zohar Zisapel, the Chairman of our Board of Directors and a principal shareholder of our company, beneficially owns 8.54% of our ordinary shares as of February 28, 2021. However, Zohar and Yehuda Zisapel, and Ms. Nava Zisapel, have shared voting and dispositive power with respect to the ordinary shares held by RAD Data Communications Ltd.

Zohar Zisapel is the Chairman of the board of, and holds shares in, RADWIN Ltd., RADIFLOW Ltd., Hailo Technologies Ltd. and Hi Auto Ltd. He also serves as a director in the following companies, in a few of which he holds shares: RADCOM Ltd., NUANCE HEARING Ltd., RAD Data Communications Ltd., Packetlight Networks Ltd., CyberInt Technologies Ltd., DriveU Tech Ltd., Tupaia Ltd., Carteav Ltd. and Cylus Ltd. and several other private holdings and real estate. Zohar Zisapel also holds more than 5% of the shares of the following companies: Satixfy Ltd., Nucleix Ltd., Silicom Ltd., Vascular Grafts Solutions Ltd., Perflow Ltd., Vectorious Ltd., Sanoculis Ltd., Innoviz Ltd. and Varada Ltd. The above list does not constitute a complete list of Zohar Zisapel's holdings.

Some of the companies referred to above are known as the "RAD-BYNET Group", a group of independent companies. Members of the RAD-BYNET Group sometimes share expenses with us, on an as-needed basis, for information systems infrastructure, administrative services, medical insurance, as well as in connection with logistics services, such as transportation and cafeteria facilities - all by arm's length transactions. In addition, the Company purchases certain equipment, other services, software and licenses from members of the RAD-BYNET Group. The aggregate amount of such purchases and shared expenses in 2020 was approximately \$1.8 million.

We, as well as other companies of the RAD-BYNET Group, may market through the same distribution channels. In addition, the Company markets and sells some products of other members of the RAD-BYNET Group, which are complementary to our products, while some members of the RAD-BYNET Group market and sell part of our products, which are complimentary to their products. Certain products of members of the RAD-BYNET Group may be used in place of (and thus may be deemed to be competitive with) our products.

Ms. Yael Langer, one of our directors, acts as general counsel for several RAD-BYNET Group companies and serves as a director in RADWARE Ltd.

We generally ascertain the market prices for goods and services that can be obtained at arm's length from unaffiliated third parties before entering into any transaction with a related party. In addition, all of our related-party transactions with members of the RAD-BYNET Group are approved in accordance with the Company's Related Party Policy and applicable law. Such policy provides, among other things, that the board of directors may, from time to time, set criteria for routine/insignificant transactions which are not an extraordinary transaction. A proposed transaction that shall satisfy the criteria for routine/insignificant transactions, shall be deemed as classified as an ordinary transaction by the corporate audit committee and as pre-approved by the board. A proposed transaction that satisfies the criteria for routine/insignificant transactions, is deemed to be classified as an ordinary transaction by the corporate audit committee and as pre-approved by the board. As a result, we believe that the terms of the transactions in which we have engaged, and are currently engaged with other members of the RAD-BYNET Group are beneficial to us and no less favorable to us than terms, which might be available to us from unaffiliated third parties. Any future transaction and arrangement with entities in which our office holders may have a personal interest will require approval by our Corporate Audit Committee, our Board of Directors and, if applicable, our shareholders.

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

As part of the operating agreement with Orocom, the Company had two seats in Orocom's board of directors, which comprise half of Orocom's board seats, as well as other protective rights in Orocom. As a result, Orocom and its shareholders were defined as "related companies" of Ceragon. During 2018 and 2019, Amitel Perú Telecomunicaciones S.A.C. ("Amitel") - one of Orocom's shareholders and a partner in the Pronatel project - won tenders of Ceragon for the provision of site surveys services as well as installation and commissioning services under framework agreements in the sums of up to approximately \$ 490,000 and \$ 900,000, respectively. Following the return of certain bank guarantees to us under the aforementioned project, the Company's seats in Orocom's board of directors were reduced to one seat and the Company's other protective rights in Orocom were revoked. Orocom and its shareholders are still defined as "related companies" of Ceragon.

In December 2018, we purchased 14% (11% on a fully diluted basis) of the share capital of Compass Networks LTD ("Compass") for a consideration of \$ 833,333. As of December 31, 2020, the Company holds 11% (7% on a fully diluted basis) of the share capital of Compass. The investment was accounted for based on the equity method. As of December 31, 2020, the investment amount decreased to zero as a result of equity losses and the intangible assets were fully written-off. To date, the Company does not expect future economic benefits from this asset, inter alia, due to 5G new market requirements.

For more details concerning Compass, please see Item 18. FINANCIAL STATEMENTS – “Notes to Consolidated Financial Statements” Note 1b and Note 19.

Lease Arrangements

We lease space in additional properties as detailed in “Item 4.D. – Property, Plants and Equipment”.

Supply Arrangement

We purchase products from certain RAD-BYNET Group companies, which we integrate into our products or product offerings. The aggregate purchase price of these components in 2020 was approximately \$0.2 million.

Sales Arrangement

We sell products through RAD-BYNET Group companies, which they integrate into their products or product offerings. The aggregate selling price of these components in 2020 was approximately \$0.2 million.

Registration Rights

In connection with the private placement of preferred shares before our initial public offering in August 2000, several of our shareholders were granted registration rights with respect to ordinary shares that were converted from preferred shares immediately prior to the completion of our initial public offering. The registration rights were granted to each of:

- the holders of the ordinary shares resulting from the conversion of such preferred shares; and
- Yehuda Zisapel and Zohar Zisapel.

Under the registration rights agreement, each of these shareholders has the right to have its ordinary shares included in certain of our registration statements.

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

The annual financial statements required by this Item are found at the end of this annual report, beginning on Page F-1.

Export Sales

In 2020, our sales to end users located outside of Israel amounted to \$261.8 million, or 99.6% of our \$262.9 million revenues for this year.

Legal Proceedings

On January 6, 2015 the Company was served with a motion (the “**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 million, as well as attorneys’ fees and costs.

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), and eventually, only the company's CEO was summoned. 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 (the "Supreme Court Decision").

In light of this, on October 15, 2018, the plaintiff asked the 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 included 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. Therefore, on September 25, 2019, the Court rendered a decision pointing out that the Amended Motion seemed to include the plaintiff's summaries, and so ordered the plaintiff to clarify whether he was willing to relinquish submitting any additional summaries regarding the evidence that was heard in the original Motion.

On October 2, 2019, plaintiff responded, alleging that since the Amended Motion did not include any new facts, there was no need to submit additional summaries regarding the evidence that was 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 included new causes of action, and specifically that the addition of legal causes of action according to US Federal law, could not 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 was rendered.

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

The Company believes that it has strong arguments to support dismissal of the Amended Motion, and that the Court should accept the Company's motion to dismiss it. Furthermore, the Company believes that it has a strong defense against the allegations referred to in the Motion and that the Court should deny it.

In addition, we are negotiating a dispute with one of our customers and should the parties fail to reach an amicable settlement, it might lead to a threatened or actual litigation. Albeit the amount under dispute is not material, we are exposed to the risk that the said customer shall unlawfully pursue the exercise of a bank guarantee held by it at the amount exceeding the true amount in dispute and which could be material to us.

We are not a party to any other material legal proceedings.

Dividends

We have never declared or paid any dividend on our ordinary shares except for the share dividend that was paid as a result of a 250-for-1 share recapitalization that took place immediately prior to our initial public offering. To date, we do not anticipate paying any dividends on our ordinary shares in the future. We currently intend to retain all future earnings to finance our operations and to expand our business. Under our Credit Facility, we undertook not to distribute dividends (unless certain terms are met) without the lenders' prior written consent. For additional information of our Credit Facility see Item 19, Exhibit 4.9.

Significant Changes

See Item 5. “OPERATING AND FINANCIAL REVIEW AND PROSPECTS -Liquidity and Capital Resources” for a description of the February 2018 and March 2018 amendments to the credit facility.

ITEM 9. THE OFFER AND LISTING

Offer and Listing Details

Our ordinary shares are listed on the Nasdaq Global Select Market under the symbol “CRNT”.

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association – General

A description of our Memorandum and Articles of Association was previously provided in our registration statement on Form F-1 (Registration Statement 333-12312) filed with the SEC on August 3, 2000, and is incorporated herein by reference. The Memorandum and Articles of Association - as amended in October 2007, September 2011, December 2012, July 2014 and September 2016 - were previously provided in our annual reports on Form 20-F for the years 2007, 2011, 2012, 2014 and 2016, respectively, and are incorporated herein by reference.

In July 2014, we revoked our Memorandum pursuant to procedures provided by Israeli law; a detailed description of such procedure was previously provided in our annual report on Form 20-F for the year 2014 and is incorporated herein by reference.

Articles of Association

Objects and purposes

Our registration number with the Israeli Registrar of Companies is 51-235244-4. Our purpose as set forth in article 1 to our Articles of Association is to engage, directly or indirectly, in any lawful undertaking or business whatsoever.

Meetings of Shareholders, Quorum and Voting Rights

According to the Companies Law and our Articles of Association, an annual general meeting of our shareholders shall be held once every calendar year, provided it is within a period of not more than fifteen (15) months after the preceding annual general meeting. Our Board of Directors may, whenever it deems fit, convene a special general meeting at such time and place as may be determined by the board, and, pursuant to the Companies Law, must convene a meeting upon the demand of: (a) two directors or one quarter of the directors in office; or (b) the holder or holders of: (i) 5% or more of the Company's issued share capital and one percent 1% or more of its voting rights; or (ii) 5% or more of the Company's voting rights. If the Board of Directors does not convene a meeting upon a valid demand of any of the above then the persons who made the demand, and in the case of shareholders, part of such demanding shareholders holding at least half of the voting rights of such demanding shareholders, may convene a meeting of the shareholders to be held within three months of the demand. Alternatively, upon petition by the individuals making the demand, a court may order that a meeting be convened.

The Chairman of the Board of Directors, or any other director or office holder of the Company who may be designated for this purpose by the Board of Directors, shall preside as Chairman at every general meeting of the Company. If there is no such Chairman, or if at any meeting such Chairman is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the members present shall choose someone of their number to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any general meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a shareholder or proxy of a shareholder if, in fact, he is also a shareholder or such proxy).

Pursuant to the Companies Law and the regulations promulgated pursuant to the Companies Law and governing the terms of notice and publication of shareholder meetings of public companies, shareholder meetings generally require prior notice of not less than 21 days, and not less than 35 days in certain cases. Pursuant to the Articles of Association, we are not required to deliver or serve notice of a general meeting or of any adjournments thereof to any shareholder. However, subject to applicable law and stock exchange rules and regulations, we will publicize the convening of a general meeting in any manner reasonably determined by us, and any such publication shall be deemed duly made, given and delivered to all shareholders on the date on which it is first made, posted, filed or published in the manner so determined by us in our sole discretion.

The function of the general meeting is to elect directors, receive and consider the profit and loss account, the balance sheet and the ordinary reports and accounts of the directors and auditors, appoint auditors, approve certain interested party transactions requiring general meeting approval as provided in the Companies Law, approve the Company's merger, exercise of the powers of the Board of Directors if the Board of Directors is unable to exercise its powers and the exercise of any of its powers is vital for our proper management, approve amendments of our Articles of Association and transact any other business which under our Articles of Association or applicable law may be transacted by the shareholders of the Company in a general meeting.

Under our Articles of Association, the quorum required for a meeting of shareholders consists the presence, in person or by proxy, of at least two shareholders holding shares conferring in the aggregate twenty five percent (25%) or more of the voting power of the Company. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened by the Board of Directors upon the demand of shareholders or upon the demand of less than 50% of the directors then in office or directly by such shareholders or directors, shall be cancelled. If a meeting is otherwise called and no quorum is present within half an hour from the time appointed for such meeting it shall stand adjourned to the same day in the following week at the same time and place or to such other day, time and place as the Chairman of the meeting may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. At the adjourned meeting, the required quorum consists of any two shareholders.

Subject to the provisions of the Articles of Association, holders of fully paid ordinary shares have one vote for each ordinary share held by such shareholder of record, on all matters submitted to a vote of shareholders. Shareholders may vote in person, by proxy or by proxy card. These voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. As our ordinary shares do not have cumulative voting rights in the election of directors, the holders of the majority of the shares present and voting at a shareholders meeting generally have the power to elect all of our directors, except the external directors whose election requires a special majority.

Unless otherwise prescribed in our Articles of Association and/or under the Companies Law, shareholders resolutions are deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person, by proxy or by proxy card, and voting on the matter.

Share Ownership Restrictions

The ownership or voting of ordinary shares by non-residents of Israel is not restricted in any way by the Articles of Association or the laws of the State of Israel, except that citizens of countries that are in a state of war with Israel may not be recognized as owners of ordinary shares.

Transfer of Shares

Our ordinary shares which have been fully paid-up are transferable by submission of a proper instrument of transfer together with the certificate of the shares to be transferred and such other evidence of title, as the Board of Directors may require, unless such transfer is prohibited by another instrument or by applicable securities laws.

Modification of Class Rights

Pursuant to our Articles of Association, if at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by our Articles of Association, may be modified or abrogated by the Company, by shareholders resolution, subject to the requirement that such resolution is also approved by a majority of the holders of the shares of such applicable class, who are present and voting at a separate general meeting of the holders of the shares of such class.

Dividends

Under the Companies law, dividends may be distributed only out of profits available for dividends as determined by the Companies Law, provided that there is no reasonable concern that the distribution will prevent the Company from being able to meet its existing and anticipated obligations when they become due. If the company does not meet the profit requirement, a court may nevertheless allow the company to distribute a dividend, as long as the court is convinced that there is no reasonable concern that such distribution will prevent the company from being able to meet its existing and anticipated obligations when they become due. Pursuant to our Articles of Association, no dividend shall be paid otherwise than out of the profits of the Company. Generally, under the Companies Law, the decision to distribute dividends and the amount to be distributed is made by a company's board of directors.

Our Articles of Association provide that our Board of Directors, may, subject to the Companies Law, from time to time, declare and cause the Company to pay such dividends as may appear to the Board of Directors to be justified by the profits of our Company. Subject to the rights of the holders of shares with preferential, special or deferred rights that may be authorized in the future, our profits which shall be declared as dividends shall be distributed according to the proportion of the nominal (par) value paid up or credited as paid up on account of the shares held at the date so appointed by the Company and in respect of which such dividend is being paid, without regard to the premium paid in excess of the nominal (par) value, if any. The declaration of dividends does not require Shareholders' approval.

To date, we have not declared or distributed any dividend and we currently do not intend to pay cash dividends on our ordinary shares in the foreseeable future; see above under Item 8. "FINANCIAL INFORMATION – Dividends."

Liquidation Rights

In the event of our winding up or liquidation or dissolution, subject to applicable law, our assets available for distribution among the shareholders shall be distributed to the holders of ordinary shares in proportion to the amount paid up or credited as paid up on account of the nominal value of the shares held by them respectively and in respect of which such distribution is being made, without regard to any premium paid in excess of the nominal value, if any. This liquidation right may be affected by the grant of limited or preferential rights as to liquidation to the holders of a class of shares that may be authorized in the future.

Mergers and Acquisitions under Israeli Law

In general, a merger of a company, that was incorporated before the enactment of the Companies Law, requires the approval of the holders of a majority of 75% of the voting power represented at the annual or special general meeting in person or by proxy or by a written ballot, as shall be permitted, and voting thereon in accordance with the provisions of the Companies Law. However, in accordance with our Articles of Association, a shareholder resolution approving a merger (as defined in the Companies law) of the Company shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon. Upon the request of a creditor of either party of the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least: (i) 50 days have passed from the time that the requisite proposal for the merger has been filed by each party with the Israeli Registrar of Companies; and (ii) 30 days have passed since the merger was approved by the shareholders of each party.

The Companies Law also provides that, an acquisition of shares in a public company must be made by means of a tender offer: (a) if there is no existing shareholder, or a group of shareholders holding shares together, in the company holding shares conferring 25% or more of the voting rights at the general meeting (a "control block"), and as a result of the acquisition the purchaser would become a holder of a control block; or (b) if there is no existing shareholder, or a group of shareholders holding shares together, in the company holding shares conferring 45% or more of the voting rights at the general meeting and as a result of the acquisition the purchaser would become a holder of 45% or more of the voting rights at the general meeting. Notwithstanding, the abovementioned requirements do not apply if the acquisition was: (1) made by way of a private placement that received shareholders' approval (which includes an explicit approval that the purchaser will become, as a result of such acquisition, a holder of a "control block," or of 45% or more of the voting power in the company, and unless there is already a holder of a "control block" or of 45% or more of the voting power in the company, respectively); (2) was from a holder of a "control block" in the company and resulted in the acquirer becoming a holder of a "control block"; or (3) was from a holder of 45% or more of the voting power in the company and resulted in the acquirer becoming a holder of 45% or more of the voting power in the company. The tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. The tender offer may be consummated only if: (i) at least 5% of the company's outstanding shares will be acquired by the offeror; and (ii) the number of shares acquired in the offer exceeds the number of shares whose holders objected to the offer.

Under the Companies Law, a person may not acquire shares in a public company if, after the acquisition, the acquirer will hold more than 90% of the shares or more than 90% of any class of shares of that company, unless a tender offer is made to purchase all of the shares or all of the shares of the particular class. The Companies Law also generally provides that as long as a shareholder in a public company holds more than 90% of the company's shares or of a class of shares, that shareholder shall be precluded from purchasing any additional shares. The full tender offer shall be accepted and all the shares that the acquirer offered to purchase (i.e. all of the shares not owned by the acquirer) will be transferred to it if (i) the shareholders who declined or do not respond to the tender offer hold less than 5% of the company's outstanding share capital or of the relevant class of shares and the majority of offerees who do not have a personal interest in accepting the tender offer accepted the offer, or (ii) the shareholders who declined or do not respond to the tender offer hold less than 2% of the company's outstanding share capital or of the relevant class of shares. The Companies Law provides that a shareholder that had his or her shares so transferred, whether he or she accepted the tender offer or not, has the right, within six months from the date of acceptance of the tender offer, to petition the court to determine that the tender offer was for less than fair value and that the fair value should be paid as determined by the court. However, the acquirer may provide in its offer that shareholders who accept the tender offer will not be entitled to such rights. If as a result of a full tender offer the acquirer would own 95% or less of the outstanding shares, then the acquirer may not acquire shares that will cause his shareholding to exceed 90% of the outstanding shares.

Furthermore, certain provisions of other Israeli laws may have the effect of delaying, preventing or making more difficult an acquisition of or merger with us; see Item 3. "KEY INFORMATION - Risk Factors—Risks Relating to Operations in Israel - *Provisions of Israeli law may delay, prevent or make undesirable an acquisition of all or significant portion of our shares or assets*".

Material Contracts

None.

Exchange Controls

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

The ownership or voting of our ordinary shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by our Memorandum or Articles of Association or by the laws of the State of Israel.

Taxation

The following is a short summary of the tax environment to which shareholders may be subject. The following is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations. Each individual should consult his or her own tax or legal advisor.

This summary is based on the current provisions of tax law and, except for the foregoing, does not anticipate any possible changes in law, whether by legislative, regulatory, administrative or judicial action. Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares.

General Corporate Tax Structure in Israel

The corporate tax rate in 2020 was 23%.

However, the effective tax rate payable by a company that derives income from an approved enterprise, beneficiary enterprise, or preferred enterprise as discussed further below, may be considerably lower. See "The Law for the Encouragement of Capital Investments, 1959" (the "Investment Law") below.

The Law for the Encouragement of Capital Investments, 1959

In general, the Investment Law is intended to provide tax benefits to Industrial Enterprises who undertake significant export activities leading to the economic competitiveness of the country. The Investment Law underwent several amendments in recent years as will be detailed below, however, benefits which were granted under prior versions of the law remain intact and may be applied to the extent the company who obtained such benefits continues to comply with the respective requirements and has not waived such benefits.

Tax Benefits before the 2005 amendment

The Investment Center has granted approved enterprise status to three investment programs at our former facility in Tel Aviv and we have derived and expect to continue to derive a substantial portion of our income from these programs. We have elected the alternative track of benefits under these approved enterprise programs. The portion of our income derived from these approved enterprise programs will be exempt from tax for a period of two years commencing in the first year in which there is taxable income. The period of tax benefits for our approved enterprise programs has not yet commenced, because we have yet to realize approved taxable income.

The benefit period starts with the first year the 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 ("limitation period"). As of January 1st, 2020, the 14 years period have passed for the three approved programs. The respective benefit period has not yet begun, as no taxable income was generated.

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.

Tax Benefits under the 2005 Amendment

On April 1, 2005, an amendment to the Investments Law (the "Amendment") came into force. The Amendment includes revisions to the criteria for investments qualified to receive tax benefits as an approved enterprise. The Amendment applies to new investment programs and investment programs commencing after 2004, and does not apply to investment programs approved prior to December 31, 2004, whose benefits will remain as they were on the date of such approval. However, a company that was granted benefits according to section 51 of the Investments Law (prior to the amendment) would not be allowed to choose a new tax year as a year of election (as described below) under the new amendment for a period of 2 years from the company's previous year of commencement under the old Investments Law.

The tax benefits under the Amendment has expired as of December 31, 2020.

Tax Benefits under the 2017 Amendment

The 2017 Amendment was enacted as part of the Economic Efficiency Law that was published on December 29, 2016 and is effective as of January 1, 2017. The 2017 Amendment provides new tax benefits for two types of "Technology Enterprises", as described below, and is in addition to the other existing tax beneficial programs under the Investment Law.

The 2017 Amendment provides that a technology company satisfying certain conditions will qualify as a "Preferred Technology Enterprise" and will thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as "Preferred Technology Income", as defined in the Investment Law. The tax rate is further reduced to 7.5% for a Preferred Technology Enterprise located in development Zone A.

Dividends distributed by a Preferred Technology Enterprise paid out of Preferred Technology Income, are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing such a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld. If such dividends are distributed to a foreign company (holding at least 90% of the share capital) and other conditions are met, the withholding tax rate will be 4%.

The Company did not apply the 2017 Amendment. The Company may change its position in the future.

Tax Benefits and Grants for Research and Development

Israeli tax law allows, under specific conditions, a tax deduction in the year incurred for expenditures, including capital expenditures, relating to scientific research and development projects, for the year in which they are incurred if:

- the expenditures are approved by the relevant Israeli government ministry, determined by the field of research;
- the research and development is for the promotion or development of the company; and
- the research and development is carried out by or on behalf of the company seeking the deduction.

However, the amount of such deductible expenses shall be reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period if the R&D is for the promotion or development of the company.

Tax Benefits under the Law for the Encouragement of Industry (Taxes), 1969

According to the Law for the Encouragement of Industry (Taxes), 1969, generally referred to as the Industry Encouragement Law, an industrial company is a company incorporated and resident in Israel, at least 90% of the income of which, in a given tax year, determined in Israeli currency 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.

Under the Industry Encouragement Law, industrial companies are entitled to the following preferred corporate tax benefits, among others:

- deduction of purchases of know-how, patents and the right to use a patent over an eight-year period for tax purposes;
- deduction over a three-year period of specified expenses incurred with the issuance and listing of shares on the Tel Aviv Stock Exchange or on a recognized stock exchange outside of Israel (including Nasdaq);
- the right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli industrial companies; and
- accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

We believe that we currently qualify as an industrial company within the definition of the Industry Encouragement Law. We cannot assure you that we will continue to qualify as an industrial company or that the benefits described above will be available to us in the future.

Israeli Capital Gains Tax on Sales of Shares

Israeli law imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares of Israeli resident companies, by non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain that is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

Generally, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals. Additionally, if such individual shareholder is considered a "significant shareholder" at any time during the 12-month period preceding such sale (i.e. such shareholder holds directly or indirectly, including jointly with others, at least 10% of any "means of control" in the company. "means of control" - including, among other things, the right to receive profits of the Company, voting rights, the right to receive the Company's liquidation proceeds and the right to appoint a director) the tax rate is 30%. Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of publicly-traded shares.

Furthermore, beginning on January 1, 2013, an additional tax liability at the rate of 2% was added to the applicable tax rate on the annual taxable income of the individuals (whether any such individual is an Israeli resident or non-Israeli resident) exceeding NIS 803,520 (in 2016) (hereinafter: "Added Tax"). Effective January 1, 2017 the Added Tax rate has increased to 3% and the threshold taxable income was reduced to NIS 640,000 (and NIS 651,600 in 2020).

Generally, non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on a recognized stock market in Israel or outside of Israel (including Nasdaq). However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. Such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

Persons paying consideration for shares, including purchasers of shares, Israeli securities dealers effecting a transaction, or a financial institution through which securities being sold are held, are required, to withhold tax upon the sale of publicly traded securities at a rate of 25% for individuals and at the corporate tax rate (23% in 2020 and thereafter) for corporations. However, the sale of shares may be exempt from Israeli capital gain tax under the provisions of the Ordinance or the provisions of an applicable tax treaty, subject to the receipt in advance of a valid certificate from the Israel Tax Authority (the "ITA") allowing for such exemption no tax will be withheld. Under the convention between the United States and Israel concerning taxes on income, as amended (the "U.S.-Israel Tax Treaty"), generally, Israeli capital gains tax will not apply to the sale, exchange or disposition of ordinary shares by a person who:

- holds the ordinary shares as a capital asset;
- qualifies as a resident of the United States within the meaning of the U.S.-Israel tax treaty; and
- is entitled to claim the benefits available to the person by the U.S.-Israel tax treaty.

However, this exemption will not apply if (i) the treaty U.S. resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding the sale, exchange or disposition, subject to specified conditions, or (ii) the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel. In this case, the sale, exchange or disposition would be subject to Israeli tax, to the extent applicable. However, under the U.S.-Israel tax treaty, the treaty U.S. resident would be permitted to claim a credit for the taxes against the U.S. federal income tax imposed on the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits.

Israeli Taxation of Dividends Distributed to Non-Resident Holders of Our Shares

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. These sources of income include passive income, including dividends, royalties and interest, as well as non-passive income from services provided in Israel. On distributions of dividends income tax is withheld at source at the following rates: 25% or 30% for a shareholder that is considered a significant shareholder, as defined above, at any time during the 12-month period preceding such distribution; unless a different rate is provided in a treaty between Israel and the shareholder's country of residence (subject to the receipt in advance of a valid tax certificate from the ITA allowing for a reduced tax rate). According to the U.S.-Israel Tax Treaty, the tax withholding rate on dividends distributed by an Israeli corporation to a U.S. individual and a U.S. corporation is 25%. If the U.S. company holds 10% or more of the voting power of the Israeli company during the part of the tax year which precedes the date of payment of the dividend and during the whole of the preceding tax year, the tax withholding rate is reduced to 12.5%. Dividends received by such U.S. company distributed from income generated by an Approved Enterprise are subject to withholding tax at a rate of 15%. However, these provisions do not apply if the company has certain amounts of passive income. The aforementioned rates under the U.S.-Israel Treaty will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel.

Israeli Transfer Pricing Regulations

On November 29, 2006, Income Tax Regulations (Determination of Market Terms), 2006, promulgated under Section 85A of the Tax Ordinance, came into effect (the “TP Regs”). Section 85A of the Tax Ordinance and the TP Regulations generally requires that all cross-border transactions carried out between related parties be conducted on an arm’s length principle basis and will be taxed accordingly. The TP Regulations have not had a material effect on the Company.

U.S. Federal Income Tax Considerations

Subject to the limitations described below, the following discussion summarizes certain U.S. federal income tax consequences of the purchase, ownership and disposition of our ordinary shares to a U.S. holder that owns our ordinary shares as a capital asset (generally, for investment). A U.S. holder is a holder of our ordinary shares that is for U.S. federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, any political subdivision thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust (i) if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (ii) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our ordinary shares, the tax treatment of the entity and an equity owner in such entity will generally depend on the status of the equity owner and the activities of the entity. Such an equity owner or entity should consult its own tax advisor as to its tax consequences.

Certain aspects of U.S. federal income taxes relevant to a holder of our ordinary shares (other than a partnership) that is not a U.S. holder (a “Non-U.S. holder”) are also discussed below.

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the “Code”), current and proposed Treasury Regulations, and administrative and judicial decisions as of the date of this annual report, all of which are subject to change, possibly on a retroactive basis. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder in light of such holder’s individual circumstances. In particular, this discussion does not address the potential application of the U.S. federal income tax consequences to U.S. holders that are subject to special treatment, including U.S. holders that:

- are broker-dealers or insurance companies;
- have elected mark-to-market accounting;
- are tax-exempt organizations or retirement plans;
- are grantor trusts;
- are S corporations;
- are certain former citizens or long-term residents of the United States;
- are financial institutions;
- hold ordinary shares as part of a straddle, hedge or conversion transaction with other investments;
- acquired their ordinary shares upon the exercise of employee stock options or otherwise as compensation;
- are real estate investment trusts or regulated investment companies;

- own directly, indirectly or by attribution at least 10% of our shares (by vote or value); or
- have a functional currency that is not the U.S. dollar.

This discussion is not a comprehensive description of all the tax considerations that may be relevant to each person's decision to purchase our ordinary shares. For example, this discussion does not address any aspect of state, local or non-U.S. tax laws, the possible application of the alternative minimum tax or United States federal gift or estate taxes.

Each holder of our ordinary shares is advised to consult his or her own tax advisor with respect to the specific tax consequences to him or her of purchasing, owning or disposing of our ordinary shares, including the applicability and effect of federal, state, local and foreign income and other tax laws to his or her particular circumstances.

Taxation of Distributions Paid on Ordinary Shares

Subject to the discussion below under "Tax Consequences if We Are a Passive Foreign Investment Company," a U.S. holder will be required to include in gross income as dividend income the amount of any distribution paid on our ordinary shares, including any non-U.S. taxes withheld from the amount paid, to the extent the distribution is paid out of our current or accumulated earnings and profits as determined for U.S. federal income tax purposes. Distributions in excess of earnings and profits will be applied against and will reduce the U.S. holder's tax basis in its ordinary shares and, to the extent in excess of that basis, will be treated as gain from the sale or exchange of ordinary shares. The dividend portion of such distribution generally will not qualify for the dividends received deduction otherwise available to corporations.

Dividends that are received by U.S. holders that are individuals, estates or trusts will be taxed at the rate applicable to long-term capital gains (currently a maximum rate of 20%), provided that such dividends meet the requirements of "qualified dividend income." Subject to the holding period and risk-of-loss requirements discussed below generally, dividends paid by a non-U.S. corporation that is not a passive foreign investment company (as discussed below) will generally be qualified dividend income if either the stock with respect to which the dividend is paid is readily tradable on an established securities market in the United States (such as the Nasdaq Global Select Market) or such corporation is eligible for the benefits of an income tax treaty with the IRS determines is satisfactory and which includes an exchange of information program. The IRS has determined that the U.S.-Israel income tax treaty is satisfactory for this purpose and includes an exchange of information program. Dividends that fail to meet such requirements, and dividends received by corporate U.S. holders, are taxed at ordinary income tax rates. No dividend received by a U.S. holder will be a qualified dividend if (1) the U.S. holder held the ordinary share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code Section 246(c), any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such ordinary share (or substantially identical securities) or (2) the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid. If we were to be PFIC (as such term is defined in the Code) for any year, dividends paid on our ordinary shares in such year or in the following year would not be qualified dividends. In addition, a non-corporate U.S. holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case the dividend will be taxed at ordinary income tax rates.

Distributions of current or accumulated earnings and profits paid in foreign currency to a U.S. holder (including any non-U.S. taxes withheld from the distributions) will generally be includible in the income of a U.S. holder in a dollar amount calculated by reference to the exchange rate on the date of the distribution. A U.S. holder that receives a foreign currency distribution and converts the foreign currency into dollars after the date of distribution may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

U.S. holders generally will have the option of claiming the amount of any non-U.S. income taxes withheld at source either as a deduction from gross income or as a dollar-for-dollar credit against their U.S. federal income tax liability. Individuals who do not claim itemized deductions, but instead utilize the standard deduction, may not claim a deduction for the amount of the non-U.S. income taxes withheld, but the amount may be claimed as a credit against the individual's U.S. federal income tax liability. The amount of non-U.S. income taxes that may be claimed as a credit in any year is subject to complex limitations and restrictions, which must be determined on an individual basis by each holder. These limitations include rules which limit foreign tax credits allowable for specific classes of income to the U.S. federal income taxes otherwise payable on each such class of income. The total amount of allowable foreign tax credits in any year generally cannot exceed the pre-credit U.S. tax liability for the year attributable to non-U.S. source taxable income. Distributions of our current or accumulated earnings and profits generally will be non-U.S. source passive income for U.S. foreign tax credit purposes.

A U.S. holder will be denied a foreign tax credit for non-U.S. income taxes withheld from a dividend received on the ordinary shares (1) if the U.S. holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date with respect to such dividend or (2) to the extent the U.S. holder is under an obligation to make related payments with respect to positions in substantially similar or related property. Any days during which a U.S. holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the required 16-day holding period.

Taxation of the Disposition of Ordinary Shares

Subject to the discussion below under “Tax Consequences if We Are a Passive Foreign Investment Company,” upon the sale, exchange or other disposition of our ordinary shares (other than in certain non-recognition transactions), a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the U.S. holder's basis in the ordinary shares, which is usually the cost to the U.S. holder of the ordinary shares, and the amount realized on the disposition. Capital gain from the sale, exchange or other disposition of ordinary shares held more than one year will be long-term capital gain and may, in the case of non-corporate U.S. holders, be subject to a reduced rate of taxation (long-term capital gains are currently taxable at a maximum rate of 20% for U.S. holders that are individuals, estates or trusts). Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of ordinary shares will generally be treated as U.S. source income for U.S. foreign tax credit purposes. The deductibility of a capital loss recognized on the sale, exchange or other disposition of ordinary shares may be subject to limitations.

A U.S. holder that uses the cash method of accounting calculates the dollar value of the proceeds received on the sale as of the date that the sale settles. However, a U.S. holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the trade date and may therefore realize foreign currency gain or loss. An accrual method U.S. holder may avoid realizing such foreign currency gain or loss by electing to use the settlement date to determine the proceeds of sale for purposes of calculating the foreign currency gain or loss. In addition, a U.S. holder that receives foreign currency upon disposition of ordinary shares and converts the foreign currency into dollars after the settlement date or trade date (whichever date the U.S. holder is required to use to calculate the value of the proceeds of sale) may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

Net Investment Income Tax

Certain non-corporate U.S. holders may also be subject to an additional 3.8% tax on all or a portion of their “net investment income,” which may include dividends on, or capital gains recognized from the disposition of, our ordinary shares, subject to certain limitations and exceptions. U.S. holders are urged to consult their own tax advisors regarding the implications of the Net Investment income tax on their investment in our ordinary shares.

Tax Consequences if We Are a Passive Foreign Investment Company

For U.S. federal income tax purposes, we will be classified as a passive foreign investment company, or PFIC, for any taxable year in which, after applying certain look-through rules, either (i) 75% or more of our gross income is passive income or (ii) at least 50% of the average value of our total assets (determined on a quarterly basis) for the taxable year produce, or are held for the production of, passive income. For this purpose, cash is considered to be an asset which produces passive income. Passive income includes dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of certain assets which produce passive income.

Based on our income, assets, activities and market capitalization, we do not believe that we were a PFIC for the taxable year ended December 31, 2020. However, there can be no assurances that the IRS will not challenge this conclusion. If we were not a PFIC for 2020, U.S. holders who acquired our ordinary shares in 2020 will not be subject to the PFIC rules described below (regardless of whether we were a PFIC in any prior year) unless we are classified as a PFIC in future years. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of our future income, assets, activities and market capitalization, including fluctuations in the price of our ordinary shares, which are relevant to this determination.

If we are a PFIC, a U.S. holder of our ordinary shares could be subject to increased tax liability upon the sale or other disposition (including gain deemed recognized if the ordinary shares are used as security for a loan) of its ordinary shares or upon the receipt of distributions that are treated as “excess distributions”, which could result in a reduction in the after-tax return to such U.S. holder. In general, an excess distribution is the amount of distributions received during a taxable year that exceed 125% of the average amount of distributions received by a U.S. holder in respect of the ordinary shares during the preceding three taxable years, or if shorter, during the U.S. holder’s holding period prior to the taxable year of the distribution. Under these rules, the distributions that are excess distributions and any gain on the disposition of ordinary shares would be allocated ratably over the U.S. holder’s holding period for the ordinary shares. The amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we were a PFIC would be taxed as ordinary income. The amount allocated to each of the other taxable years would be subject to tax at the highest marginal rate in effect for the applicable class of taxpayer for that taxable year, and an interest charge for the deemed deferral benefit would be imposed on the resulting tax allocated to such other taxable years. The tax liability with respect to the amount allocated to taxable years prior to the year of the disposition or distribution cannot be offset by net operating losses. In addition, holders of stock in a PFIC may not receive a “step-up” in basis on shares acquired from a decedent. Furthermore, if we are a PFIC, each U.S. holder generally will be required to file an annual report with the IRS.

As an alternative to the tax treatment described above, a U.S. holder could elect to treat us as a “qualified electing fund” (“QEF”), in which case the U.S. holder would be required to include in income, for each taxable year that we are a PFIC, its pro rata share of our ordinary earnings as ordinary income and its pro rata share of our net capital gains as capital gain, subject to a separate election to defer payment of taxes where such deferral is subject to an interest charge. We may supply U.S. holders that make a request in writing with the information needed to report income and gain under a QEF election, if we are a PFIC. Any income inclusion will be required whether or not such U.S. holder owns our ordinary shares for an entire taxable year or at the end of our taxable year. The amount so includible will be determined without regard to our prior year losses or the amount of cash distributions, if any, received from us. Special rules apply if a U.S. holder makes a QEF election after the first year in its holding period in which we are a PFIC. A U.S. holder’s basis in its ordinary shares will increase by any amount included in income and decrease by any amounts distributed to the extent such amounts were previously taxed under the QEF rules. So long as a U.S. holder’s QEF election is in effect beginning with the first taxable year in its holding period in which we were a PFIC, any gain or loss realized by such holder on the disposition of its ordinary shares held as a capital asset ordinarily would be capital gain or loss. Such capital gain or loss ordinarily would be long-term if such U.S. holder had held such ordinary shares for more than one year at the time of the disposition. The QEF election is made on a shareholder-by-shareholder basis, applies to all ordinary shares held or subsequently acquired by an electing U.S. holder and can be revoked only with the consent of the IRS.

As an alternative to making a QEF election, a U.S. holder of PFIC stock which is “marketable stock” (e.g., “regularly traded” on the Nasdaq Global Select Market) may in certain circumstances avoid certain of the tax consequences generally applicable to holders of stock in a PFIC by electing to mark the stock to market as of the beginning of such U.S. holder’s holding period for the ordinary shares. As a result of such election, in any taxable year that we are a PFIC, a U.S. holder generally would be required to report gain or loss to the extent of the difference between the fair market value of the ordinary shares at the end of the taxable year and such U.S. holder’s tax basis in its ordinary shares at that time. Any gain under this computation, and any gain on an actual disposition of the ordinary shares in a year in which we are a PFIC, would be treated as ordinary income. Any loss under this computation, and any loss on an actual disposition of the ordinary shares in a year in which we are a PFIC, generally would be treated as ordinary loss to the extent of the cumulative net-mark-to-market gain previously included. Any remaining loss from marking ordinary shares to market will not be allowed, and any remaining loss from an actual disposition of ordinary shares generally would be capital loss. A U.S. holder’s tax basis in its ordinary shares is adjusted annually for any gain or loss recognized under the mark-to-market election. There can be no assurances that there will be sufficient trading volume with respect to the ordinary shares in order for the ordinary shares to be considered “regularly traded” or that our ordinary shares will continue to trade on the Nasdaq Global Select Market. Accordingly, there are no assurances that the ordinary shares will be marketable stock for these purposes. As with a QEF election, a mark-to-market election is made on a shareholder-by-shareholder basis, applies to all ordinary shares held or subsequently acquired by an electing U.S. holder and can only be revoked with consent of the IRS (except to the extent the ordinary shares no longer constitute “marketable stock”).

The U.S. federal income tax consequences to a U.S. holder if we were to be classified as a PFIC in 2020 or any previous taxable year are complex. A U.S. holder should consult with his or her own advisor regarding those consequences, as well as regarding whether he or she should make either of the elections described above.

Tax Consequences for Non-U.S. Holders of Ordinary Shares

Except as described in “Information Reporting and Back-up Withholding” below, a non-U.S. holder of our ordinary shares will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, our ordinary shares, unless, in the case of U.S. federal income taxes:

- the item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and, in the case of a resident of a country which has a treaty with the United States, the item is attributable to a permanent establishment, or in the case of an individual, the item is attributable to a fixed place of business in the United States; or
- the non-U.S. holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition, and certain other conditions are met.

Information Reporting and Back-up Withholding

U.S. holders generally are subject to information reporting requirements with respect to dividends on, or proceeds from the disposition of, our ordinary shares. In addition, a U.S. holder may be subject, under certain circumstances, to backup withholding with respect to dividends paid on, or proceeds from the disposition of, our ordinary shares unless the U.S. holder provides proof of an applicable exemption or correct taxpayer identification number, and otherwise complies with the applicable requirements of the backup withholding rules. A U.S. holder of our ordinary shares who provides an incorrect taxpayer identification number may be subject to penalties imposed by the IRS. Amounts withheld under the backup withholding rules are not an additional tax and may be refunded or credited against the U.S. holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

Non-U.S. holders generally are not subject to information reporting or back-up withholding with respect to dividends paid in the United States on, or proceeds from the disposition of, our ordinary shares, provided that the non-U.S. holder provides a taxpayer identification number, certifies to its foreign status, or establishes another exemption from the information reporting or back-up withholding requirements.

Certain U.S. holders (and to the extent provided in IRS guidance, certain non-U.S. holders) who hold interests in “specified foreign financial assets” (as defined in Section 6038D of the Code) are generally required to file an IRS Form 8938 as part of their U.S. federal income tax returns to report their ownership of such specified foreign financial assets, which may include our ordinary shares, if the total value of those assets exceed certain thresholds. Substantial penalties may apply to any failure to timely file IRS Form 8938. In addition, in the event a holder that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed. Holders should consult their own tax advisors regarding their tax reporting obligations.

Documents on Display

We are subject to the informational requirements of the Exchange Act applicable to foreign private issuers and fulfill these requirements by filing reports with the SEC. These reports include certain financial and statistical information about us, and may be accompanied by exhibits.

The SEC maintains an Internet website at <http://www.sec.gov> that contains reports, proxy statements, information statements and other information regarding issuers that file electronically with the SEC filed through the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system.

You may also visit us on the Internet at www.ceragon.com. However, information contained on our website does not constitute a part of this annual report.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not use derivative financial instruments for trading purposes. Accordingly, we have concluded that there is no material market risk exposure of the type contemplated by Item 11, and that no quantitative tabular disclosures are required. We are exposed to certain other types of market risks, as described below.

Foreign Currency Risk

As the majority of our revenues and cost of revenues, as well as a significant portion of our operating expenses, are in U.S. dollars, we have determined that our functional currency is the U.S. dollar. However, a significant portion of our revenues, costs of revenue as well as a major portion of our operating expenses are denominated in other currencies, mainly in NIS, INR, EUR, BRL, ARS and NOK. As our financial results are reported in U.S. dollars, fluctuations in the exchange rates between the U.S. dollar and applicable non-dollar currencies may have an effect on our results of operations. In order to reduce such effect, we hedge a portion of certain cash flow transactions denominated in non-dollar currencies as well as a portion of certain monetary items in the balance sheet, such as trade receivables and trade payables, denominated in non-dollar currencies. The following sensitivity analysis illustrates the impact on our non-dollar net monetary assets assuming an instantaneous 10% change in foreign currency exchange rates from year-end levels, with all other variables held constant. At December 31, 2020, a 10% strengthening of the U.S. dollar versus other currencies would have resulted in a decrease of approximately \$2.2 million in our net monetary assets position, while a 10% weakening of the dollar versus all other currencies would have resulted in an increase of approximately \$2.7 million in our net monetary assets position.

The counter-parties to our hedging transactions are major financial institutions with high credit ratings. As of December 31, 2020, we had outstanding forward like contracts in the amount of \$66.3 million for a period of up to twelve months.

We do not invest in interest rate derivative financial instruments.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.

Not applicable.

PART II**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.**

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.

None

ITEM 15. CONTROLS AND PROCEDURES**(a) Disclosure Controls and Procedures**

The Company performed an evaluation of the effectiveness of its disclosure controls and procedures that are designed to provide reasonable assurance that the material financial and non-financial information required to be disclosed to the SEC is recorded, processed, summarized and reported timely. Based on the Company's evaluation, the Company's management, including the CEO and CFO, has concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report are effective in reaching such reasonable assurance. Notwithstanding the foregoing, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company's reports.

(b) Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

The Company performed an evaluation of the effectiveness of its internal control over financial reporting that is designed by, or under the supervision of, the Company's principal executive and principal financial officers, and effected by the Company's Board of Directors, management and other personnel, 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 and includes those policies and procedures that:

- (i) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) 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
- (iii) 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.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the framework for Internal Control - Integrated Framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Based on our assessment under that framework and the criteria established therein, our management concluded that the Company's internal control over financial reporting was effective as of December 31, 2020 in providing reasonable assurance regarding the reliability of the Company's financial reporting. Notwithstanding the foregoing, there can be no assurance that the Company's financial reporting controls and procedures will detect or uncover all failures of persons within the Company to do all the required activities properly, which may impact the fair presentation of the financial statements of the Company otherwise required to be set forth in the financial reports.

(c) Attestation Report of Independent Registered Public Accounting Firm

Kost, Forer, Gabbay & Kasierer, a Member of Ernst & Young Global, our independent registered public accounting firm, has issued an attestation report on the effectiveness of our internal control over financial reporting, appearing under Item 18: "FINANCIAL STATEMENTS" on pages F-3 – F-4, and such report is incorporated herein by reference.

(d) Changes in Internal Controls Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Company's Board of Directors has determined that Mr. Shlomo Liran is the audit committee financial expert. Mr. Liran is an independent director under the Nasdaq Rules.

ITEM 16B. CODE OF ETHICS

In November 2003, the Company's Board of Directors adopted a Code of Ethics that applies to the CEO, chief financial officer and controller. In October 2008, we amended our Code of Ethics in order to update it and expand its applicability to additional senior officers. In December 2009, we combined the Code of Ethics together with certain Standards of Business Conduct to strengthen the Company's Ethics and Compliance Program. In October 2014, and again in December 2016, we amended and expanded the Company's Ethics and Compliance Program, in order to strengthen certain provisions thereunder. A copy of the Company's updated Code of Ethics may be obtained, without charge, upon a written request addressed to the Company's investor relations department, 24 Raoul Wallenberg Street, Tel Aviv 6971920, Israel (Telephone no. +972-3-543-1000) (e-mail: ir@ceragon.com). In addition, it is also available on the Internet at www.ceragon.com. However, information contained on our website does not constitute a part of this annual report.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**Fees Paid to Independent Auditors**

The following table sets forth, for each of the years indicated, the fees billed by Kost, Forer, Gabbay & Kasierer, a member firm of Ernst & Young Global, our auditors, and the percentage of each of the fees out of the total amount billed by them.

| Services Rendered | Year Ended December 31, | | | |
|-----------------------------------|-------------------------|-------------|------------|-------------|
| | 2019 | | 2020 | |
| | Fees | Percentages | Fees | Percentages |
| Audit Fees ⁽¹⁾ | \$ 763,000 | 57% | \$ 714,000 | 94% |
| Audit related fees ⁽²⁾ | \$ 450,000 | 33% | \$ - | - |
| Tax Fees ⁽³⁾ | \$ 115,000 | 8% | \$ 43,000 | 6% |
| Other Services ⁽⁴⁾ | \$ 22,000 | 2% | \$ - | - |
| Total | \$ 1,350,000 | 100% | \$ 757,000 | 100% |

(1) Audit fees consist of services that would normally be provided in connection with statutory and regulatory filings or engagements, including services that generally only the independent accountant can reasonably provide.

(2) Audit related fees principally relates to assistance with audit services and consultation

(3) Tax fees relate to tax compliance, planning and advice

(4) Other consulting services

Policies and Procedures

Our Financial Audit Committee is in charge of a policy and procedures for approval of audit and non-audit services rendered by our independent auditors. The policy requires the Financial Audit Committee's approval of the scope of the engagement of our independent auditor. The policy prohibits retention of the independent auditors to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act of 2002 or the rules of the SEC, and also considers whether proposed services are compatible with the independence of the public auditors.

All of the fees listed in the table above were approved by our Financial Audit Committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

There were no purchases of our ordinary shares by affiliates during the year ended December 31, 2018.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

The Nasdaq Rules provide that foreign private issuers may follow home country practice in lieu of certain Nasdaq Rules, subject to certain exceptions and except to the extent that such exemptions would not be contrary to U.S. federal securities laws, so long as the foreign private issuer: (i) provides a written statement from an independent counsel in its home country certifying that the company's practices are not prohibited by the home country law; and (ii) discloses that it does not follow such listing requirement and describes the home country practice followed in its reports filed with the SEC. The practices we currently follow in lieu of Nasdaq Rules are described below:

- Compensation Committee Charter: We have opted out of the requirement to adopt and file a compensation committee charter as set forth in Nasdaq Rule 5605(d)(1). Instead, our Compensation Committee conducts itself in accordance with provisions governing the establishment (but not the composition) and the responsibilities of a compensation committee as set forth in the Companies Law and as further stipulated in our Compensation Policy.
- Shareholder Approval: We have opted out of the requirement for shareholder approval of stock option plans and other equity-based compensation arrangements as set forth in Nasdaq Rule 5635. Nevertheless, as required under the Companies Law, shareholder voting procedures are followed for the approval of equity-based compensation of certain office holders or employees, such as our CEO and members of our Board of Directors. Equity based compensation arrangements with other office holders are approved by our Compensation Committee and our Board of Directors, provided they are consistent with our Compensation Policy, and in special circumstances in deviation therefrom, taking into account certain considerations as set forth in the Companies Law.
- Annual General Meetings of Shareholders: We have opted out of the requirement for conducting annual meetings as set forth in Nasdaq Rule 5620(a), which requires Ceragon to hold its annual meetings of shareholders within twelve months of the end of its fiscal year end. Instead, Ceragon is following home country practice and law in this respect. The Companies Law requires that an annual meeting of shareholders be held every year, and not later than 15 months following the last annual meeting (see in Item 10.B above – "Additional Information – Voting, Shareholders' Meetings and Resolutions").
- Quorum at General Meetings of Shareholders: We have opted out of the requirement set under Rule 5620(c) of the Nasdaq Rules, which requires the presence of two or more shareholders holding at least 33 1/3%, and in lieu follow our home country practice and Israeli law, according to which the quorum for any shareholders meeting will be the presence (in person or by Proxy) of two or more shareholders holding at least 25% of the voting rights in the aggregate - within half an hour from the time set for opening the meeting.
- Distribution of Annual Reports: We have chosen to follow our home country practice in lieu of the requirements of Nasdaq Rule 5250(d)(1), relating to an issuer's furnishing of its annual report to shareholders. Specifically, we file annual reports on Form 20-F, which contain financial statements audited by an independent accounting firm, electronically with the SEC, and also post a copy on our website.

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The Consolidated Financial Statements and related notes thereto required by this item are contained on pages F-2 through F-50 hereof.

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ITEM 19. EXHIBITS

| | |
|-----------------------------|--|
| <u>1.1</u> | <u>Articles of Association, as amended September 20, 2016</u> ⁽¹⁾ |
| <u>2.1</u> | <u>Description of Company's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934</u> |
| <u>4.1</u> | <u>Credit facility, dated as of March 14, 2013 ("Credit Facility") by and among the Company and Bank Hapoalim B.M., HSBC Bank Plc, Bank Leumi Le-Israel Ltd. and First International Bank of Israel Ltd. (English summary of the material terms)</u> ⁽²⁾ |
| <u>4.2</u> | <u>Amendment, effective as of October 1, 2013, to the Credit Facility (English summary of the material terms)</u> ⁽³⁾ |
| <u>4.3</u> | <u>Amendment No. 2, effective as of April 29, 2014, to the Credit Facility (English summary of the material terms)</u> ⁽⁴⁾ |
| <u>4.4</u> | <u>Amendment No. 3, effective as of March 31, 2015, to the Credit Facility (English summary of the material terms)</u> ⁽⁴⁾ |
| <u>4.5</u> | <u>Amended and Restated Share Option and RSU Plan, as amended August 10, 2014</u> ⁽⁴⁾ |
| <u>4.6</u> | <u>Amendment No. 4, effective as of March 10, 2016, to the Credit Facility (English summary of the material terms)</u> ⁽⁵⁾ |
| <u>4.7</u> | <u>Amendment No. 5, executed in December 2016, to the Credit Facility (English summary of the material terms)</u> ⁽⁶⁾ |
| <u>4.8</u> | <u>Amendment No. 6, effective as of March 30, 2017, to the Credit Facility (English summary of the material terms)</u> ⁽⁷⁾ |
| <u>4.9</u> | <u>Amendment No. 7, executed on February 12, 2018, to the Credit Facility (English summary of the material terms)</u> ⁽⁸⁾ |
| <u>4.10</u> | <u>Amendment No. 8, executed on March 26, 2018, to the Credit Facility (English summary of the material terms)</u> ⁽⁸⁾ |
| <u>4.11</u> | <u>Amendment No. 9, executed on March 29, 2020, to the Credit Facility (English summary of the material terms)</u> ⁽⁹⁾ |
| <u>4.12</u> | <u>Amendment No. 10, executed on June 25, 2020, to the Credit Facility (English summary of the material terms)</u> |
| <u>4.13</u> | <u>Lease agreement New Facilities at Rosh Ha'Ain, including its amendments</u> |
| <u>4.14</u> | <u>Amendment to the Lease agreement of Facilities at Tel Aviv dated April 11, 2019</u> |
| <u>8.1</u> | <u>List of Significant Subsidiaries</u> |
| <u>12.1</u> | <u>Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| <u>12.2</u> | <u>Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| <u>13.1</u> | <u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| <u>15.1</u> | <u>Consent of Independent Registered Public Accounting Firm</u> |
| <u>15.2</u> | <u>Consent of Independent Registered Public Accounting Firm</u> |
| 101 | The following financial information from Ceragon Networks Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2020, formatted in IXBRL (Inline Extensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2020, 2019 and 2018; (ii) Consolidated Statements of Comprehensive Income (Loss) at December 31, 2020, 2019 and 2018; (iii) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2020, 2019 and 2018; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018; and (v) Notes to Consolidated Financial Statements. Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the SEC, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections. |

(1) Previously filed as exhibit 1.2 to the Company's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated herein by reference.

(2) Previously filed as exhibit 4.4 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 and incorporated herein by reference.

(3) Previously furnished as exhibit 99.3 in a Report on Form 6-K which exhibit was incorporated by reference into the Company's Registration Statement on Form F-3 (No. 333-183316), and incorporated herein by reference.

(4) Previously filed as exhibits 4.6, 4.7 and 4.8 to the Company's Annual Report on Form 20-F for the year ended December 31, 2014 and incorporated herein by reference.

(5) Previously filed as exhibits 4.9 to the Company's Annual Report on Form 20-F for the year ended December 31, 2015 and incorporated herein by reference.

(6) Previously filed as exhibit 4.10 to the Company's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated herein by reference.

(7) Previously filed as exhibit 4.11 to the Company's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated herein by reference.

(8) Previously filed as exhibits 4.12 and 4.13 to the Company's Annual Report on Form 20-F for the year ended December 31, 2017 and incorporated herein by reference.

(9) Previously filed as exhibit 4.11 to the Company's Annual Report on Form 20-F for the year ended December 31, 2019 and incorporated herein by reference.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CERAGON NETWORKS LTD.

By: /s/ Ira Palti

Name: Ira Palti

Title: President and Chief Executive Officer

Date: March 8, 2021

CERAGON NETWORKS LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2020
IN U.S. DOLLARS
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

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

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

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

Basis for Opinion

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

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

Critical Audit Matter

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

Inventory valuation

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

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

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

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

KOST FORER GABBAY & KASIERER
A Member of EY Global

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

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

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

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

KOST FORER GABBAY & KASIERER
A Member of EY Global

Tel-Aviv, Israel

March 8, 2021

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

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

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

CONSOLIDATED BALANCE SHEETS

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

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. dollars in thousands

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

*) Represent an amount lower than \$1

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

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

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

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

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

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

- b. Investment in Compass Network Ltd:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation:

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

b. Use of estimates:

The preparation of financial statements, in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company evaluates its assumptions on an ongoing basis. The Company's management believes that the estimates, judgment, and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

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

c. Financial statements in U.S. dollars:

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

d. Principles of consolidation:

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

e. Cash equivalents:

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

f. Long-term bank deposits:

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

g. Inventories:

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Property and equipment:

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

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

i. Impairment of long-lived assets:

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

j. Income taxes:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Intangible assets, net:

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

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

l. Revenue recognition:

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Research and development expenses, net:

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

n. Warranty costs:

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

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

o. Derivative instruments:

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

ASC 815 requires companies to recognize all of their derivative instruments as either assets or liabilities in the financial statements at fair value. The Company measured the fair value of the contracts in accordance with ASC topic 820, "Fair value Measurement and Disclosures" at Level 2 (see also note 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

p. Concentrations of credit risk:

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

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

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

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

q. Transfers of financial assets:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

r. Severance pay:

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- s. Accounting for stock-based compensation:

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

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

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

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

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

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

- t. Fair value of financial instruments:

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

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

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

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

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

v. Treasury shares:

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

w. Basic and diluted net earnings per share:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Equity method investment

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

y. Impact of recently issued Accounting Standards:

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

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

NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4:- INVENTORIES

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

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

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

NOTE 5:- PROPERTY AND EQUIPMENT, NET

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6:- INTANGIBLE ASSETS, NET

Intangible assets:

The following table sets forth the components of intangible assets:

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

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

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

NOTE 7:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8:- CREDIT LINES

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

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

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

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

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

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

NOTE 9:- DERIVATIVE INSTRUMENTS

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9:- DERIVATIVE INSTRUMENTS (Cont.)

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

| | Other accounts receivable and prepaid expenses | Other accounts payable and accrued expenses |
|---|---|--|
| | December 31, 2020 | |
| Derivatives designated as hedging instruments | | |
| Currency forward contracts | \$ 1,847 | \$ 2 |
| Derivatives not designated as hedging instruments | | |
| Currency forward and option contracts | \$ 90 | \$ 279 |
| Total derivatives | <u>\$ 1,937</u> | <u>\$ 281</u> |
| | Other accounts receivable and prepaid expenses | Other accounts payable and accrued expenses |
| | December 31, 2019 | |
| Derivatives designated as hedging instruments | | |
| Currency forward contracts | \$ 318 | \$ - |
| Derivatives not designated as hedging instruments | | |
| Currency forward and option contracts | \$ 55 | \$ 112 |
| Total derivatives | <u>\$ 373</u> | <u>\$ 112</u> |

The notional amounts for derivatives contracts were as follows:

| | December 31, 2019 | December 31, 2020 |
|---|-------------------|-------------------|
| Derivatives designated as hedging instruments | | |
| Currency forward contracts | \$ 29,621 | \$ 35,089 |
| Derivatives not designated as hedging instruments | | |
| Currency forward and option contracts | <u>\$ 28,532</u> | <u>\$ 31,207</u> |

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9:- DERIVATIVE INSTRUMENTS (Cont.)

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

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

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

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

NOTE 10:- CREDIT LOSSES

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- CREDIT LOSSES (Cont.)

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

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

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

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

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

NOTE 11:- PENSION LIABILITIES, NET

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

The amounts reported for net periodic pension costs and the respective benefit obligation amounts are 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 2020 net periodic benefit cost and the 2020 benefit obligation, the Company has used a discount rate of 1.70%. The rate of compensation increase is determined by the Company, based upon its long-term plans for such increases.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Benefit payments are expected to be paid as follows:

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

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

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

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

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Leases

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

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

c. Paycheck Protection Program Loan:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

d. Charges and guarantees:

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

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

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

For more information see Note 19.

f. Litigations:

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

NOTE 13:- LEASES

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- LEASES (cont.)

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

| | Year ended December 31, | |
|--|----------------------------|----------|
| | 2019 | 2020 |
| Components of lease expense | | |
| Operating lease cost | \$ 5,624 | \$ 5,484 |
| Short-term lease | \$ 75 | \$ 43 |
| Total lease expenses | \$ 5,699 | \$ 5,527 |
| | | |
| | Year ended December 31, | |
| | 2019 | 2020 |
| Supplemental cash flow information | | |
| Cash paid for amounts included in the measurement of lease liabilities | \$ 5,718 | \$ 5,489 |
| Supplemental non-cash information related to lease liabilities arising from obtaining ROU assets | \$ 8,346 | \$ 1,773 |

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

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

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

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

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:

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

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

- On September 6, 2010, the Company's board of directors amended the Plan so as to enable to grant RSUs pursuant to such Plan.
- The following table summarizes the activities for the Company's stock options for the year ended December 31, 2020:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

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

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

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

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

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

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

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

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

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, 2018, 2019 and 2020, was comprised as follows:

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

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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

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

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

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

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

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

4. Tax rates:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

b. Tax Reform in U.S:

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

c. Income taxes for non-Israeli subsidiaries:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

e. Deferred income taxes:

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

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

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

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

f. Net operating loss carry forward and capital loss:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- TAXES ON INCOME (Cont.)

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

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

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

NOTE 16:- REVENUES

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- REVENUES (Cont.)

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

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

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

NOTE 17:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION

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

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

Property and equipment, net:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

NOTE 18:- SELECTED STATEMENTS OF OPERATIONS DATA

- a. Financial expenses and others, net:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

- b. Net income (loss) per share:

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

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

NOTE 19:- RELATED PARTY BALANCES AND TRANSACTIONS

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Transactions with related parties:

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

Balances with related parties:

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



Report of Independent Registered Public Accounting Firm

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

Opinion on the financial statements

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

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

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

Basis for opinion

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

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

/s/ Mazars Auditores Independentes S.S.

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

São Paulo, SP
March 31, 2019





Report of Independent Registered Public Accounting Firm

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

Opinion on the internal control over financial reporting

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

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

Basis for opinion

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

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

Definition and limitations of internal control over financial reporting

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

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

/s/ Mazars Auditores Independentes S.S.

São Paulo, SP
March 31, 2019



DESCRIPTION OF CERAGON NETWORKS LTD.
SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934

At December 31, 2020, Ceragon Networks Ltd. (“Ceragon,” “we” or the “Company”) had one class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended: ordinary shares, par value NIS 0.01 each. Under our Articles of Association, 120,000,000 of our ordinary shares are authorized, of which 81,703,366 of such ordinary shares were issued and outstanding as of December 31, 2020. The ordinary shares are registered for trading on the NASDAQ Global Select Market under the trading symbol CRNT.

Capitalized terms used but not defined herein shall have the meanings given to them in the annual report on Form 20-F.

This Exhibit sets forth a description of our ordinary shares and certain provisions of our Articles of Association which are summaries and are qualified in their entirety by reference to the full text of our Articles of Association, which was previously filed as exhibit 1.2 to the Company’s annual report on Form 20-F for the year ended December 31, 2016 (referred to hereafter as our “Articles of Association”).

Objects and purposes.

Our registration number with the Israeli Registrar of Companies is 51-235244-4. Our purpose as set forth in article 1 to our Articles of Association is to engage, directly or indirectly, in any lawful undertaking or business whatsoever.

Meetings of Shareholders, Quorum and Voting Rights.

According to the Companies Law and our Articles of Association, an annual general meeting of our shareholders shall be held once every calendar year, provided it is within a period of not more than fifteen (15) months after the preceding annual general meeting. Our Board of Directors may, whenever it deems fit, convene a special general meeting at such time and place as may be determined by the board, and, pursuant to the Companies Law, must convene a meeting upon the demand of: (a) two directors or one quarter of the directors in office; or (b) the holder or holders of: (i) 5% or more of the Company’s issued share capital and one percent 1% or more of its voting rights; or (ii) 5% or more of the Company’s voting rights. If the Board of Directors does not convene a meeting upon a valid demand of any of the above then the persons who made the demand, and in the case of shareholders, part of such demanding shareholders holding at least half of the voting rights of such demanding shareholders, may convene a meeting of the shareholders to be held within three months of the demand. Alternatively, upon petition by the individuals making the demand, a court may order that a meeting be convened.

The Chairman of the Board of Directors, or any other director or office holder of the Company who may be designated for this purpose by the Board of Directors, shall preside as Chairman at every general meeting of the Company. If there is no such Chairman, or if at any meeting such Chairman is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the members present shall choose someone of their number to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any general meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a shareholder or proxy of a shareholder if, in fact, he is also a shareholder or such proxy).

Pursuant to the Companies Law and the regulations promulgated pursuant to the Companies Law and governing the terms of notice and publication of shareholder meetings of public companies, shareholder meetings generally require prior notice of not less than 21 days, and not less than 35 days in certain cases. Pursuant to the Articles of Association, we are not required to deliver or serve notice of a general meeting or of any adjournments thereof to any shareholder. However, subject to applicable law and stock exchange rules and regulations, we will publicize the convening of a general meeting in any manner reasonably determined by us, and any such publication shall be deemed duly made, given and delivered to all shareholders on the date on which it is first made, posted, filed or published in the manner so determined by us in our sole discretion.

The function of the general meeting is to elect directors, receive and consider the profit and loss account, the balance sheet and the ordinary reports and accounts of the directors and auditors, appoint auditors, approve certain interested party transactions requiring general meeting approval as provided in the Companies Law, approve the Company's merger, exercise of the powers of the Board of Directors if the Board of Directors is unable to exercise its powers and the exercise of any of its powers is vital for our proper management, approve amendments of our Articles of Association and transact any other business which under our Articles of Association or applicable law may be transacted by the shareholders of the Company in a general meeting.

Under our Articles of Association, the quorum required for a meeting of shareholders consists the presence, in person or by proxy, of at least two shareholders holding shares conferring in the aggregate twenty five percent (25%) or more of the voting power of the Company. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened by the Board of Directors upon the demand of shareholders or upon the demand of less than 50% of the directors then in office or directly by such shareholders or directors, shall be cancelled. If a meeting is otherwise called and no quorum is present within half an hour from the time appointed for such meeting it shall stand adjourned to the same day in the following week at the same time and place or to such other day, time and place as the Chairman of the meeting may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. At the adjourned meeting, the required quorum consists of any two shareholders.

Subject to the provisions of the Articles of Association, holders of fully paid ordinary shares have one vote for each ordinary share held by such shareholder of record, on all matters submitted to a vote of shareholders. Shareholders may vote in person, by proxy or by proxy card. These voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. As our ordinary shares do not have cumulative voting rights in the election of directors, the holders of the majority of the shares present and voting at a shareholders meeting generally have the power to elect all of our directors, except the external directors whose election requires a special majority.

Unless otherwise prescribed in our Articles of Association and/or under the Companies Law, shareholders resolutions are deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person, by proxy or by proxy card, and voting on the matter.

Share Ownership Restrictions

The ownership or voting of ordinary shares by non-residents of Israel is not restricted in any way by the Articles of Association or the laws of the State of Israel, except that citizens of countries that are in a state of war with Israel may not be recognized as owners of ordinary shares.

Transfer of Shares

Our ordinary shares which have been fully paid-up are transferable by submission of a proper instrument of transfer together with the certificate of the shares to be transferred and such other evidence of title, as the Board of Directors may require, unless such transfer is prohibited by another instrument or by applicable securities laws.

Modification of Class Rights

Pursuant to our Articles of Association, if at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by our Articles of Association, may be modified or abrogated by the Company, by shareholders resolution, subject to the requirement that such resolution is also approved by a majority of the holders of the shares of such applicable class, who are present and voting at a separate general meeting of the holders of the shares of such class.

Dividends

Under the Companies law, dividends may be distributed only out of profits available for dividends as determined by the Companies Law, provided that there is no reasonable concern that the distribution will prevent the Company from being able to meet its existing and anticipated obligations when they become due. If the company does not meet the profit requirement, a court may nevertheless allow the company to distribute a dividend, as long as the court is convinced that there is no reasonable concern that such distribution will prevent the company from being able to meet its existing and anticipated obligations when they become due. Pursuant to our Articles of Association, no dividend shall be paid otherwise than out of the profits of the Company. Generally, under the Companies Law, the decision to distribute dividends and the amount to be distributed is made by a company's board of directors.

Our Articles of Association provide that our Board of Directors, may, subject to the Companies Law, from time to time, declare and cause the Company to pay such dividends as may appear to the Board of Directors to be justified by the profits of our Company. Subject to the rights of the holders of shares with preferential, special or deferred rights that may be authorized in the future, our profits which shall be declared as dividends shall be distributed according to the proportion of the nominal (par) value paid up or credited as paid up on account of the shares held at the date so appointed by the Company and in respect of which such dividend is being paid, without regard to the premium paid in excess of the nominal (par) value, if any. The declaration of dividends does not require Shareholders' approval.

To date, we have not declared or distributed any dividend and we currently do not intend to pay cash dividends on our ordinary shares in the foreseeable future.

Liquidation Rights

In the event of our winding up or liquidation or dissolution, subject to applicable law, our assets available for distribution among the shareholders shall be distributed to the holders of ordinary shares in proportion to the amount paid up or credited as paid up on account of the nominal value of the shares held by them respectively and in respect of which such distribution is being made, without regard to any premium paid in excess of the nominal value, if any. This liquidation right may be affected by the grant of limited or preferential rights as to liquidation to the holders of a class of shares that may be authorized in the future.

Mergers and Acquisitions under Israeli Law

In general, a merger of a company, that was incorporated before the enactment of the Companies Law, requires the approval of the holders of a majority of 75% of the voting power represented at the annual or special general meeting in person or by proxy or by a written ballot, as shall be permitted, and voting thereon in accordance with the provisions of the Companies Law. However, in accordance with our Articles of Association, a shareholder resolution approving a merger (as defined in the Companies law) of the Company shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon. Upon the request of a creditor of either party of the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least: (i) 50 days have passed from the time that the requisite proposal for the merger has been filed by each party with the Israeli Registrar of Companies; and (ii) 30 days have passed since the merger was approved by the shareholders of each party.

The Companies Law also provides that, an acquisition of shares in a public company must be made by means of a tender offer: (a) if there is no existing shareholder, or a group of shareholders holding shares together, in the company holding shares conferring 25% or more of the voting rights at the general meeting (a "control block"), and as a result of the acquisition the purchaser would become a holder of a control block; or (b) if there is no existing shareholder, or a group of shareholders holding shares together, in the company holding shares conferring 45% or more of the voting rights at the general meeting and as a result of the acquisition the purchaser would become a holder of 45% or more of the voting rights at the general meeting. Notwithstanding, the abovementioned requirements do not apply if the acquisition was: (1) made by way of a private placement that received shareholders' approval (which includes an explicit approval that the purchaser will become, as a result of such acquisition, a holder of a "control block," or of 45% or more of the voting power in the company, and unless there is already a holder of a "control block" or of 45% or more of the voting power in the company, respectively); (2) was from a holder of a "control block" in the company and resulted in the acquirer becoming a holder of a "control block"; or (3) was from a holder of 45% or more of the voting power in the company and resulted in the acquirer becoming a holder of 45% or more of the voting power in the company. The tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. The tender offer may be consummated only if: (i) at least 5% of the company's outstanding shares will be acquired by the offeror; and (ii) the number of shares acquired in the offer exceeds the number of shares whose holders objected to the offer.

Under the Companies Law, a person may not acquire shares in a public company if, after the acquisition, the acquirer will hold more than 90% of the shares or more than 90% of any class of shares of that company, unless a tender offer is made to purchase all of the shares or all of the shares of the particular class. The Companies Law also generally provides that as long as a shareholder in a public company holds more than 90% of the company's shares or of a class of shares, that shareholder shall be precluded from purchasing any additional shares. The full tender offer shall be accepted and all the shares that the acquirer offered to purchase (i.e. all of the shares not owned by the acquirer) will be transferred to it if (i) the shareholders who declined or do not respond to the tender offer hold less than 5% of the company's outstanding share capital or of the relevant class of shares and the majority of offerees who do not have a personal interest in accepting the tender offer accepted the offer, or (ii) the shareholders who declined or do not respond to the tender offer hold less than 2% of the company's outstanding share capital or of the relevant class of shares. The Companies Law provides that a shareholder that had his or her shares so transferred, whether he or she accepted the tender offer or not, has the right, within six months from the date of acceptance of the tender offer, to petition the court to determine that the tender offer was for less than fair value and that the fair value should be paid as determined by the court. However, the acquirer may provide in its offer that shareholders who accept the tender offer will not be entitled to such rights. If as a result of a full tender offer the acquirer would own 95% or less of the outstanding shares, then the acquirer may not acquire shares that will cause his shareholding to exceed 90% of the outstanding shares.

Duties of Office Holders and Shareholders

Duties of Office Holders

Fiduciary Duties. The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company, including directors. The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances, and requires office holders to use reasonable means to obtain (i) information regarding the business advisability of a given action brought for the office holders' approval or performed by the office holders by virtue of their position, and (ii) all other information of importance pertaining to the aforesaid actions. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and his personal affairs, avoiding any competition with the company, avoiding the exploitation of any business opportunity of the company in order to receive personal advantage for himself or others, and revealing to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder.

The company may approve an action by an office holder from which the office holder would otherwise have to refrain due to its violation of the office holder's duty of loyalty if: (i) the office holder acts in good faith and the act or its approval is not to the detriment of the company, and (ii) the office holder discloses the nature of his or her interest in the transaction to the company a reasonable time prior to the company's approval.

Each person listed in the table included in "Item 6.A. – Directors and Senior Management" of the annual report on Form 20-F is considered an office holder under the Companies Law.

Disclosure of Personal Interests of an Office Holder. The Companies Law requires that an office holder of a company promptly disclose any personal interest that he or she may have, and all related material information and documents known to him or her relating to any existing or proposed transaction by the company. If the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's siblings, parents and descendants and the spouses of any of these people, or any corporation in which the office holder: (i) holds at least 5% of the company's outstanding share capital or voting rights; (ii) is a director or chief executive officer; or (iii) has the right to appoint at least one director or the chief executive officer. An extraordinary transaction is defined as a transaction that is either: (i) not in the ordinary course of business; (ii) not on market terms; or (iii) likely to have a material impact on the company's profitability, assets or liabilities.

In the case of a transaction which is not an extraordinary transaction, after the office holder complies with the above disclosure requirements, only board approval is required unless the articles of association of the company provide otherwise. The transaction must not be adverse to of the company's interest. If a transaction is an extraordinary transaction, or concerns the terms of office and employment, then, in addition to any approval stipulated by the articles of association, it must also be approved by the company's audit committee (or with respect to terms of office and employment, by the compensation committee) and then by the board of directors, and, under certain circumstances, by shareholders of the company. Additionally, the board of directors may, from time to time, set criteria for routine/insignificant transactions which are not an extraordinary transaction. A proposed transaction that shall satisfy the criteria for routine/insignificant transactions, shall be deemed as classified as an ordinary transaction by the corporate audit committee and as pre-approved by the board. A proposed transaction that shall satisfies the criteria for routine/insignificant transactions, is deemed to be classified as an ordinary transaction by the corporate audit committee and as pre-approved by the board.

A person with a personal interest in any matter may not generally be present at any audit committee, compensation committee or board of directors meeting where such matter is being considered, and if he or she is a member of the committee or a director, he or she may not generally vote on such matter at the applicable meeting.

Duties of Shareholders

Under the Companies Law, a shareholder has a duty to: (i) act in good faith toward the company and other shareholders; and (ii) refrain from abusing his or her power in the company, including, among other things, voting in a general meeting of shareholders with respect to the following matters: (a) any amendment to the articles of association; (b) an increase of the company's authorized share capital; (c) a merger; or (d) approval of interested party transactions which require shareholders' approval.

In addition, any controlling shareholder, or any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of a company's articles of association, has the power to appoint or prevent the appointment of an office holder in the company, is under a duty to act with fairness towards the company. The Companies Law does not describe the substance of this duty but states that the remedies generally available upon a breach of contract, will also apply in the event of a breach of the duty of fairness, taking into account such shareholder's position.

This document is to be signed by the parties

Amendment No. 10 to the Financing Agreement of March 14, 2013

Made and signed in Tel Aviv on June ____ 2020

by and between:

The parties enumerated in Appendix 1 to the Financing Agreement

in their capacity as Financiers (hereinafter: the “**Financiers**”).

of the first part;

and:

Bank Hapoalim Ltd.

in its capacity as the Credit Manager and Collateral Trustee

(Hereinafter: “**Bank Hapoalim**”)

of the second part;

and:

Ceragon Networks Ltd.

Company No. 51-235244-4

of 24 Raoul Wallenberg Street, Tel Aviv 6971920

(The “**Borrower**”)

of the third part;

(Each of the Financiers, the Credit Manager, the Collateral Trustee and the Borrower: “**Party**,” and, jointly, the “**Parties**”).

Whereas on March 14, 2013, the Borrower entered into a financing agreement with the Financiers, its appendices and attachments included, as amended from time to time (the “Financing Agreement”), in and pursuant to which, *inter alia*, the Credit was provided to the Borrower; and

Whereas the Borrower contacted the Financiers and requested various changes in the Financing Agreement, as stated in this Amendment below; and

Whereas based on the veracity of the declarations and representations of the Borrower in the Financing Agreement and this Amendment, as stated below, and the performance of all of its obligations as stated in the Financing Agreement as amended by this Amendment, the Financiers granted the Borrower's request, and all subject to and in accordance with the terms and provisions of the Financing Agreement and this Amendment.

Now, therefore, it is declared, stipulated and agreed between the parties as follows:

1. **General**

- 1.1 The preamble to this Amendment constitutes an integral part hereof. All of the terms that are mentioned in this Amendment above and below will have the meanings ascribed to them in the Financing Agreement, unless expressly stated otherwise.
- 1.2 For the avoidance of doubt, it is hereby agreed that this Amendment constitutes part of the Credit Documents, as defined in Section 2 of the Financing Agreement.
- 1.3 In addition to any declaration, representation or undertaking of the Borrower in the Credit Documents (as this term is defined in the Financing Agreement) or in any other agreement or document that was provided or will be provided to the Financiers in connection with the Credit or the Collateral, without derogating from any of the above (except as required by this Amendment), the Borrower declares, certifies and undertakes toward the Financiers and Officers as follows:
 - 1.3.1 That the Borrower complied and continues to comply with all of the provisions of the Financing Agreement, and to the letter.
 - 1.3.2 That all of the Borrower's representations that are included in the Financing Agreement (excluding those that are stated in Sections 15.1.2, 15.1.3(a), 15.1.5, 15.1.6, 15.1.10, 15.1.11 and 15.1.16) remain unchanged and they are correct and complete as of the date of signing this Amendment.
 - 1.3.3 That: (a) the Borrower has obtained all of the decisions, agreements, authorizations, permits and certificates that are required under its constitutional documents, as required by law and in accordance with the instructions of any authority, in connection with making this Amendment or in connection with the Financing Agreement and its appendices; (b) there is no need to make decisions or provide agreements or for any other certificates; (c) all of the requisite steps and measures have been taken in order to lawfully certify its entering into this Amendment; (d) all of the obligations of the Borrower under, in the framework of or in connection with this Amendment or the Financing Agreement or the other Credit Documents are legal, in force, valid, binding and enforceable against it, according to their terms and conditions;

2. **Postponement of the Final Repayment Date**

- 2.1 As of the date of signing this Amendment, Section 2 of the Financing Agreement will be amended such that the definition of "Final Repayment Date" in it is removed, and replaced by the following:

"Final Repayment Date" – June 30, 2021.
-

3. **Increased loan amounts and decreased guarantee amounts**

3.1 Without derogating from the provisions of Sections 18.8 and 18.9 of the Financing Agreement, as of the date of signing this Amendment:

- (a) the loan amount that was allocated by each of the Financiers will be amended such that the total amount of loans that will be allocated by all of the Financiers together will increase by USD 10 (ten) million (the **"Addition"**), as follows: (a) the share of HSBC with respect to the loans will remain unchanged; (B) the share of the other Financiers with respect to the loans (the "Other Financiers") will increase by USD 10 (ten) million. The share of each of the Financiers with respect to the loans will be as stated in Appendix 1 to the Financing Agreement.
- (b) The amount of bank guarantees allocated by each of the Financiers together will decrease by USD 15 (fifteen) million (hereinafter: the **"Reduction"**), as follows: (a) the share of HSBC with respect to the bank guarantees will remain unchanged; (b) the share of the Other Financiers with respect to the bank guarantees (the **"Other Financiers"**) will decrease by USD 15 (fifteen) million. The share of each of the Financiers with respect to the bank guarantees will be as stated in Appendix 1 to the Financing Agreement.

3.2 As of the date of signing this Amendment, Appendix 1 to the Financing Agreement will be replaced by **Appendix 1** that is attached to this Amendment, in accordance with the amendments in Section 3.1 above.

3.3 As of the date of signing this Amendment, Section 16.28.5 of the Financing Agreement will be amended such that Appendix 16.28.5 to the Financing Agreement is replaced by Appendix **16.28.5** that is attached to this Amendment.

4. **Amendment of the terms of the Insurance Arrangement**

4.1 As of the date of signing this Amendment, Section 15.1.17 of the Financing Agreement will be amended such that, in the 13th (thirteenth) line, the words "20 (twenty)" will be removed and replaced by the words "50 (fifty)."

5. **Amendment of the Financing Agreement**

5.1 As of the date of signing this Amendment, Section 1.15 of the Financing Agreement will be amended such that the existing section is removed in its entirety, and replaced by the following:

"1.15. The terms **"Liquidation"**, **"Insolvency,"** or **"Suspension of Proceedings"** will interpreted to include: (a) the appointment of a liquidator, special administrator, receiver, trustee or any similar officer and the appointment of any other person by any competent authority (whether in Israel or overseas), with respect to all or part of the property of the Borrower and/or significant subsidiary, or, if an motion is filed for such an appointment, be it temporary or permanent; (b) the filing of a motion for liquidation or a motion for receivership order or a motion for commencement of proceedings or a motion to recognize a foreign proceeding that pertains to insolvency or any other motion of a similar nature; (c) the passing of a resolution to liquidate or the granting of a liquidation order or a receivership order or a commencement of proceedings order (be its content as it may); (d) a motion for or the issuance of an economic rehabilitation order; or (e) a proposal or the certification of an arrangement or a proposed settlement between the Borrower and/or a significant subsidiary and its creditors or shareholders (in whole or in part), or the settlement of the Borrower's debts and/or those of a significant subsidiary with respect to any of the creditors or shareholders; and (f) all proceedings that are analogous or similar to any of the above in Israel or overseas; any reference in this agreement to a **"motion,"** **"proceeding,"** **"order,"** **"appointment"** and so on will also include corresponding motions, proceedings, orders or appointments under the relevant foreign law."

- 5.2 As of the date of signing this Amendment, the Financing Agreement will be amended such that, at the end of Sections 16.28.1 and 16.28.2 of the Financing Agreement, the following paragraph will be added:

"It is hereby clarified that a precondition for providing the Credit and its continued provision by the Financiers is the provision of the Financiers' financial statements as stated in this section, and *inter alia* and as required pursuant to the instructions of the Bank of Israel or any other competent authority, or under applicable law.

- 5.3 As of the date of signing this Amendment, Section 17.3.5 of the Financing Agreement will be amended such that the Section is removed in its entirety and replaced by the following:

"17.3.5. If the Borrower and/or investee company passes a voluntary liquidation resolution, excluding in the framework of permitted structural changes, and/or if a motion to institute insolvency proceedings of any kind is filed against the Borrower and/or a significant subsidiary, including a motion for liquidation or a motion for bankruptcy, or a motion for commencement of proceedings order or a motion for receivership order that is not canceled within 21 (twenty-one) days of its filing and/or if a liquidation order or a bankruptcy order or a commencement of proceedings order or a receivership order (be its content as it may) is issued against the Borrower and/or a significant subsidiary; and/or if, a temporary, permanent or other receiver is appointed, or a special administrator or trustee or receiver or any other receiver or administrator or officer is appointed for the Borrower and/or a significant subsidiary in connection with any of the cases that are set forth in this subsection above, by way of temporary or permanent appointment or any other appointment by any competent authority (whether in Israel or overseas); and/or if a motion for suspension of proceedings with respect to the Borrower and/or a significant subsidiary is filed (provided that, if this motion was filed without the Borrower's consent and/or that of the Borrower's shareholders and/or the significant subsidiary, as the case may be, is not canceled within 21 (twenty-one) days of its filing) and/or a suspension of proceeding order is issued as stated and/or a financial rehabilitation order and/or if resolutions are passed by the Borrower and/or a significant subsidiary to negotiate with any of the Borrower's creditors and/or those of a significant subsidiary and/or if negotiations are held for the purpose of reaching an arrangement or a proposed settlement between the Borrower and/or a significant subsidiary and their creditors and/or shareholders (in whole or in part), or between them and any class thereof and/or the settlement of the Borrower's debt and/or that of a significant subsidiary with respect to any of the creditors or shareholders and/or if an arrangement or proposed settlement is certified and/or if a motion is filed with the court for the appointment of an settlement expert with respect to the Borrower and/or a significant subsidiary, or if such an expert or another officer is appointed in connection with any of the cases that are set forth in this section above, by way of temporary or permanent appointment. This section will be interpreted as referring to all of the proceedings and orders that are stated in it and any to proceeding or order that is analogous or similar to them in Israel or overseas."

5.4 As of the date of signing this Amendment, Section 17.3.6 of the Financing Agreement will be amended such that the Section is removed in its entirety and replaced by the following:

“17.3.6. If a motion to commence insolvency proceedings of any kind, including a motion for liquidation, motion for bankruptcy or motion for receivership order or motion for commencement of proceedings order is filed against an investee company (that is not a significant subsidiary) that is not canceled within 21 (twenty-one) business days of its filing and/or if a liquidation order or a bankruptcy order or a receivership order or a commencement of proceedings order (be its content as it may) is issued against an investee company (that is not a significant subsidiary) is issued that is not removed or canceled within 21 (twenty-one) business day; and/or a temporary, permanent or other liquidator or special administrator or trustee or receiver or any other receiver and administrator or other officer is appointed for an investee company (that is not a significant subsidiary), in connection with any of the cases that are enumerated in this subsection above, by way of temporary or permanent appointment, as well as any other appointment by any competent authority (whether in Israel or overseas), and the aforementioned appointment is not canceled within 21 (twenty-one) business days; if a motion to suspend proceedings is filed against an investee company (that is not a significant subsidiary); and/or if a motion to suspend proceeding as stated and/or an economic rehabilitation order is issued, provided that, if the motion to suspend proceedings was filed without the consent of the Borrower and/or investee company, as the case may be, it was not canceled within 21 (twenty-one) business days of its filing, and all if any of the aforementioned motions or orders were granted were issued with respect to debts that cumulatively exceed USD 5 (five) million, with respect to all of the investee companies against which such a motion was filed in that calendar year; if resolutions are passed by an investee company (that is not a significant subsidiary) to negotiate with any of its creditors and/or if negotiations are held for the purpose of reaching a settlement or proposed settlement between an investee company (that is not a significant subsidiary) and its creditors (in whole or in part) or between it and any class thereof and/or if a settlement or proposed settlement is certified as stated and/or if a motion is filed with the court for the appointment of a settlement expert with respect to an investee company (that is not a significant subsidiary), or if such an expert or another officer is appointed in connection with any of the cases that are set forth in this section above, by way of temporary or permanent appointment, and provided that the settlement or proposed settlement refer to debts that cumulatively exceed USD 5 (five) million, with respect to all of the investee companies against which such a motion was filed in that calendar year.”

5.5 As of the date of signing this Amendment, Section 23.6.2 of the Financing Agreement will be amended such that the section is removed in its entirety and replaced by the following sections:

“23.6.2. The settlement of all of the amounts payable to the Financiers in accordance with the provisions of the Credit Documents pursuant to penalty interest, *pro rata* among the Financiers, and in accordance with the applicable distribution ratio.

26.6.2a. The settlement of all of the amounts payable to the Financiers in accordance with the provisions of the Credit Documents pursuant to interest of any kind (excluding penalty interest, which will be settled in accordance with Section 23.6.2 above), *pro rata* among the Financiers, and in accordance with the applicable distribution ratio.

6. **Payments**

- 6.1 the Borrower undertakes to pay (a) Bank Hapoalim in its capacity as the Credit Manager, and (b) each Financier through the Credit Manager, a special, one-time and agreed upon amount in connection with the amendment of the Financing Agreement, and all as stated in the Supplementary Letter, which will be signed by the Borrower together with this Amendment.
- 6.2 Any payment as stated above will be regarded as final and conclusive, and will not be returned to the Borrower for any reason.

7. **Miscellaneous**

- 7.1 Unless otherwise expressly stated in this Amendment, the conditions and obligations set forth in this Amendment do not derogate from or change any other obligation of the Borrower with respect to the Financiers or the validity of any collateral that was provided in favor of the Collateral Trustee for the Financiers, under and pursuant to the Financing Agreement or the other Credit Documents or any other document or agreement that was provided or that will be provided to the Financiers or an officer in connection with the Credit, and they will remain in full binding force, including all of the provisions that pertain to the Financiers' rights to the Credit's immediate repayment, and all in accordance with and subject to the provisions and conditions of the Credit Documents.
- 7.2 This Amendment, unless expressly stated otherwise therein, is in addition to everything that is stated in the Financing Agreement and the Amendments, without derogating from or changing them, and, unless otherwise expressly stated in this Amendment, all of the rights of the Financiers and the Borrower under the Financing Agreement, the Amendments and applicable law are fully reserved.
- 7.3 A single copy or several separate copies of this Amendment (by any of the parties) can be signed by the parties, which will together constitute a single document.

[The signatures are found on the next page]

In witness whereof the parties have hereunto set their hands:

Signature and Stamp]

Bank Hapoalim Ltd.

Ceragon Networks Ltd.

(In its capacity as the Credit Manager and Collateral Trustee)

First International Bank of Israel

[As Financier]

HSBC Bank PLC

[As Financier]

Bank Leumi Ltd.

[As Financier]

Certification

I, the undersigned, Adv. [Stamp] Zvi Maayan, EVP, General Counsel, Ceragon Networks Ltd., serving as a legal advisor of Ceragon Networks Ltd. (the “**Borrower**”), hereby certify that this Amendment was lawfully signed by the Borrower through [Illegible], I.D. No. 55492603 and Ran Vered, I.D. No. 031682743, pursuant to a lawfully passed resolution of the Borrower, and in accordance with the Borrower’s current constitutional documents. I also hereby certify that this agreement was signed through those authorized to obligate the Borrower, whose signature in this agreement is binding on the Borrower for all intents and purposes.

| | |
|---------------|---|
| June 25, 2020 | Stamp] Zvi Maayan, EVP, General Counsel, Ceragon Networks Ltd. |
| Date | Signature and seal of attorney |

Appendix 1 (Appendix 1 to Amendment No. 10 to the Financing Agreement)**List of financiers and list of credit obligations and permissible risk amounts of each Financier**

1. All of the terms in this Appendix will have the meanings ascribed to them in the Financing Agreement.
2. The list of Financiers is as stated in this Appendix

| | | | Loan Amount Allocated by the Financier | Bank Guarantee Amount Allocated by the Financier | Permissible Risk Amount |
|--------------|---|--|---|---|--|
| 1. | Bank Hapoalim Ltd. | <u>Name:</u> Mr. Amnon Kirmayer <u>Address:</u> Business Department, Business Division, Central Management, Bank Hapoalim Ltd., 23 Menachem Begin Road, Tel Aviv-Jaffa <u>Tel.:</u> 03-5674817 <u>Fax:</u> 03-7136367 <u>Email:</u> amnon.kirmayr@mailpoalim.co.il | USD 25,000,000 (twenty-five) | USD 41,000,000 (forty-one million) | USD 5,427,586 (five million, four hundred and twenty-seven, five hundred and eighty-six) |
| 2. | Bank Leumi Ltd. | <u>Name:</u> Mr. Danny Shapira <u>Address:</u> High-tech Department, Business Division, Bank Leumi, 34 Yehuda HaLevi Street, Tel Aviv-Jaffa 65136 <u>Tel.:</u> 076-885-9184 <u>Fax:</u> 077-8959184 <u>Email:</u> Danny.Shapira@BankLeumi.co.il | USD 8,200,000 (eight million and two hundred thousand) | USD 16,000,000 (sixteen million) | USD 1,000,000 (one million) |
| 3. | First International Bank of Israel | <u>Name:</u> Ms. Naama Magid <u>Tel.:</u> 03-5196239 <u>Fax:</u> 03-5196944 <u>Email:</u> magid.n@fibi.co.il <u>Name:</u> Mr. Hezi Cupryk <u>Tel.:</u> 03-619599; <u>Fax:</u> 03-5196944 <u>Email:</u> Cupryk.H@fibi.co.il <u>Address:</u> Energy, Chemistry and Technology Sector of the Business Division, First International Bank of Israel Ltd., 42 Rothschild Street, Tel Aviv-Jaffa. | USD 8,000,000 (eight million) | USD 9,000,000 (nine million) | USD 3,982,759 (three million, nine hundred and eighty-two thousand, seven hundred and fifty-nine) |
| 4. | HSBC Bank PLC (Tel Aviv Branch) | <u>Name:</u> Mr. Guy Birger <u>Address:</u> 2 Jabotinsky Street, Ramat Gan, Amot Atrium Building, 30 th Floor, 5250501 <u>Tel.:</u> 03-7101244 <u>Fax:</u> 03-7101144 <u>Email:</u> guybirger@hsbc.com | USD 8,800,000 (eight million and eight hundred thousand) | USD 4,000,000 (four million) | USD 400,000 (four hundred thousand) |
| Total | | | USD 50,000,000 (fifty million) | USD 70,000,000 (seventy million) | USD 10,810,345 (ten million, eight hundred and ten thousand, three hundred and forty-five) |

This document is to be signed by the parties

Report on usage of loan and bank guarantee amounts with respect to each Financier

1. All of the terms in this Appendix will have the meanings ascribed to them in the Financing Agreement.
2. The used amounts set forth in this appendix – Appendix 16.28.5 – below are as of _____ (with respect to calendar quarter No. ____ of the year ____).

| | Name of Financier | Loan Amount Allocated by the Financier | Loan Amount Used by the Borrower out of the Total Loan Amount Allocated by the Financier ¹ | Bank Guarantee Amount Allocated by the Financier | Amount Used by the Borrower out of the Total Bank Guarantee Amount Allocated by the Financier ² |
|--------------|------------------------------------|---|---|--|--|
| 1. | Bank Hapoalim Ltd. | USD 25,000,000 (twenty-five) | USD _____ (_____) | USD 41,000,000 (forty-one million) | USD _____ (_____) |
| 2. | Bank Leumi Ltd. | USD 8,200,000 (eight million and two hundred thousand) | USD _____ (_____) | USD 16,000,000 (sixteen million) | USD _____ (_____) |
| 3. | First International Bank of Israel | USD 8,000,000 (eight million) | USD _____ (_____) | USD 9,000,000 (nine million) | USD _____ (_____) |
| 4. | HSBC Bank PLC (Tel Aviv Branch) | USD 8,800,000 (eight million and eight hundred thousand) | USD _____ (_____) | USD 4,000,000 (four million) | USD _____ (_____) |
| Total | | USD 50,000,000 (fifty million) | USD _____ (_____) | USD 70,000,000 (seventy million) | USD _____ (_____) |

¹ The used loan amount also includes credit card amounts that were provided by a Financier (whether or not the credit card amounts were used, in whole or in part).

² The aforementioned amount includes the unpaid principal of the long-term loan.

Construction and Rental Agreement
Made and signed in Petah Tikva on April 11, 2019

Between: **Mifaley Tahanot**
A company registered in Israel, pcn -520020678
By authorized signatories on its behalf:
Mssrs. Sharon Tousya-Cohen ID – 056015290 and Noa Landner ID-050596204
Whose address is at 8 Granit St. Petach Tikvah

Of the One Part

And Between **Ceragon Networks Ltd.**
A company registered in Israel, pcn -512352444
By authorized signatories on its behalf:
Mssrs. Ira Palto ID – 054926035 and Doron Arazi ID- 058148107
Whose address is at 24 Raul Wallenburg St., Tel Aviv 69719

Of the Second Part

In this agreement, the following terms and expressions shall have the meaning adjacent thereto, unless the context requires otherwise:

1. **Definitions**

- 1.1. **"The Landlord"** - Mifaley Tahanot pcn 520020678.
- 1.2. **"The Tenant"** - Ceragon Networks Ltd.
- 1.3. **"ILA"** - The Israel Land Authority.
- 1.4. **"The Municipality"** - the Rosh Ha'ayin Municipality.
- 1.5. **"The Local Council"** - Rosh Ha'ayin local and building council.

Mifaley Tahanot Ltd.

Ceragon Networks Ltd.

- 1.6. **"The Property"** - a land area located within the borders of Rosh Ha'ayin, adjacent to Kesem junction, upon which the project is/will be constructed, all as specified in the blueprint attached hereto as **Appendix A**.
- 1.7. **"The Detailed UBP"** or **"the UBP"** - plan number 418-0464388, including other plans which amend and/or shall amend it.
- 1.8. **"The Project"** - the Project which includes commercial and office space, constructed/shall be constructed on the Property pursuant to the UBP and other UBPs, and changes thereto from time to time.
- 1.9. **"The Development Agreement"** - an agreement signed by the ILA with the Landlord on 21.7.2009, for development of the property and construction thereupon, and the supplement to the development agreement of 1.8.2016. The Landlord will act to extend the period set forth in the Development Agreement, or alternatively, to sign a lease agreement, at its exclusive expense and responsibility.
- 1.10. **"The Lot"** - Lot 300 under UBP 418-0464388, located on the Property and marked on the blueprints **Appendix A** of this agreement, upon which the Structure, as defined below, shall be constructed.
- 1.11. **"The Building"** or **"the Structure"** - building A which the Landlord intends to construct upon the Lot, to rent to a number of tenants, in an area of 20,800 m² gross, and parking space and storage areas, which will include an underground parking lot and which may include, inter alia, stores, stalls, coffee shops and restaurants, and offices as specified in the technical specifications attached to this agreement as **Appendix B** and the remainder of the provisions of this agreement.
- 1.12. **"Building Permit"** or **"the Permit"** - Building Permits which the Landlord shall receive, to construct the building, including a permit amendment plan, if any.

Mifalei Tahanot Ltd.

Ceragon Networks Ltd.

1.13. **"The Technical Specifications"** - the specifications under which the Premises shall be constructed, to the envelope stage, which is attached to this agreement as **Appendix B**.

1.14. **Cancelled.**

1.15. **"The Premises"** - office area composed of 5,500 m² (gross) located in the entirety of the two upper floors of the Building (the sixth and seventh floors of the Building above the ground floor in entirety) and part of the fifth floor (in a precise location which shall be determined by agreement between the parties, not later than 31.12.2019) of the Building above the ground floor, with the addition of storage units in an area of 540 m² (gross) at basement level -2 of the Building. Of these, at least 215 m² shall be contiguous, and the remainder of the area will be comprised of the following areas: 80 m² + 35 m² + 125 m² + 85 m² and with the addition of 220 underground parking spaces (200 "floating" spaces and 20 "reserved" spaces), as marked in the blueprints attached as **Appendix D** of this agreement. It is clarified hereby that all of the parking spaces shall be covered.

It is clarified that to such extent as additional floors shall be added to the Building by the date of delivery of the premises to the Tenant for performance of modification work, the Tenant shall be entitled to move to the upper floors in the Building.

"Reserved Parking Space" - a parking space made available exclusively to the Tenant in the parking lot in the Building, and which shall be marked in the blueprints in **Appendix D** of this agreement.

"Floating Parking Space" - a parking space which shall be made available to the Tenant in the parking lot in the Building, not in a fixed location. The Tenant shall be entitled to place a gate as marked in the blueprint attached hereto as **Appendix D**, before the "double parking space" area as specified in the blueprint.

Mifalei Tahanot Ltd.

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- 1.16. **"The Works"** or **"the Landlord Works"** - the Works for establishment and construction of the Premises as part of the construction of the Building, upon all of its parts, its areas, and systems, until completion of the Premises at the envelope level, pursuant to the Technical Specifications and the Building Permit, which the Landlord shall carry out itself, at its expense and responsibility, by means of contractors on its behalf, and all in accordance with the provisions of this agreement and its appendices.
- 1.17. **"Finishing Works"** and/or **"Tenant Works"** - the works which the Tenant shall carry out in the Premises, itself, and at its expense and responsibility, which shall be necessary to prepare the Premises for the use of the Tenant for the Purpose of the Tenancy, all as specified in clause 9 below.
- 1.18. **"The Index"** - the Consumer Price Index which is published from time to time by the Central Bureau of Statistics and Economic Research, including the same index even if shall be published by a different governmental institution, and including any other formal index which shall replace it, whether composed of the same data as the existing index, or not. If another index shall replace the Index, in accordance with the ratio determined by the Central Bureau of Statistics between the new index and between the Index which is replaced.
- 1.19. **"The Base Index"** – the index known of December 2018, published on 15.1.2019 (the index for payment of Allowance is the index of July 2020, published in August 2020, pursuant to the provisions of clause 14.2)
- 1.20. **"Linkage Differences to the Index"** - the rate of change of the Index between the Base Index and the last index to be published prior to performance of the payment. Every amount determined under this agreement as including the **Linkage Differences to the Index** means - an update of the rate of the amount which is linked, by the rate of the change of the Index from the Base Index to the New Index. A drop in the Index under the Base Index shall not lead to a reduction of the amounts. It is agreed hereby that linkage differences with respect to the Base Index shall be calculated on a monthly basis. Meaning, each year, an examination shall be carried out on the basis of the 12 preceding months, and an accounting shall be carried out between the parties, when in any event, there shall be no linkage difference to an index which is lower than the Base Index.

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- 1.21. **"Rental Fees"** - as defined in clause 14 below.
- 1.22. **"Force Majeure"** - war, general call-up, earthquake, lockout or general strike of the entire economy which continues cumulatively (even if not continuously) more than ten working days from the date of signature upon this agreement and until the date of delivery, or of the entire construction sector which endures for such period of time and/or cessation of work in the Building as a result of governmental or municipal orders which impact performance of the undertakings of the Landlord in practice, and are not at the control of the Landlord, which prevent or delay continued performance of the work applying to it pursuant to this agreement.
- 1.23. **"The Date of Delivery of Possession in the Premises"** - the date determined in clause 11 below, pursuant to that stated in such clause.
- 1.24. **"The Tenancy Period"** - a period of 120 months commencing on the Date of Delivery of Possession in the Premises to the Tenant.
- 1.25. **"The Purpose of the Tenancy"** - offices, development, sale, marketing of electronic equipment of a high-tech company.
- 1.26. **"Representative of the Landlord"** - Mr. Yoram Markovitch or any other person appointed by it in writing to such position.
- 1.27. **"The Representative of the Tenant"** - Mr. Itamar Arussi or any other person appointed by it in writing to such position.
- 1.28. **"The Professional Expert"** - a registered construction engineer with at least ten years of experience, who shall be appointed by the parties by agreement, and in the absence of an agreement within seven days from the date of demand of one party to appoint same, such person shall be appointed by the Chairman of the Chamber of Engineers, by request submitted by one of the parties.

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- 1.29. **"The Construction Consultants"** - The consultants of the Landlord for planning and construction of the Building and the Premises in accordance with the Technical Specifications.
- 1.30. **"The Parties"** - the Tenant and the Landlord.
- 1.31. **"The Agreement"** - this agreement upon all of its appendices.
- 1.32. **Appendices** - the following appendices are attached to this agreement as an inseparable part thereof:

| | | |
|--------------------|---|---|
| Appendix A | - | Blueprints of the Property and blueprints of the Lot and the Structure |
| Appendix B | - | Technical Specifications |
| Appendix B1 | - | General construction works in the Premises |
| Appendix B2 | - | Architectural and signage instructions |
| Appendix C | - | Cancelled |
| Appendix D | - | Premises blueprints |
| Appendix E | - | Cancelled |
| Appendix F | - | Structure maintenance procedures (will be provided ahead of delivery) |
| Appendix G | - | Building management agreement |
| Appendix G1 | - | Supplement to management agreement |
| Appendix H | - | Safety appendix |
| Appendix I | - | Insurance appendix |
| Appendix J | - | Text of bank guarantee |
| Appendix K | - | Text of promissory note |
| Appendix L1 | - | Council decision of 23.4.2018 on permit application number 20180394, for underground parking space on two levels. |

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- Appendix L2** - Council decision of 23.4.2018 on permit application number 20180395, for construction of seven floors of offices above ground.
- Appendix L3** - Building permit number 20181235 of 17.9.2018.
- Appendix L4** - Council decision 30.8.2018, updating the Building plan.
- Appendix M** - Assignment of rights to alternative tenant appendix
- Appendix N** - Chief contractor services as stated in clause 9.5.22

Whereas: The Landlord declares that it is the owner of the rights in the Property and it wishes to establish the Structure and to rent the Premises to the Tenant in accordance with the provisions of this Agreement.

And whereas: The Tenant declares that its desire is that the Landlord rents the Premises to it, for its use for the Purpose of the Tenancy, throughout the entire Tenancy Period, in accordance with the terms of this Agreement.

And whereas: The Parties wish to regulate the matter of the construction of the Premises and the tenancy relations between them in this Agreement.

Accordingly, it is agreed, declared, and stipulated between the Parties as follows:

2. Preamble, appendices, headings, and suspending condition

- 2.1. The preamble and appendices to this Agreement constitute an inseparable part thereof and shall be interpreted together with it.
- 2.2. The headings of the clauses in this Agreement are for convenience only. They have no part in the provisions of this Agreement and may not be given any validity in the interpretation of this Agreement or any part thereof.
- 2.3. The validity of this Agreement is subject to and contingent upon the condition that the Landlord shall receive a full Building Permit to construct the Building as defined above, by **1.9.2019** and notify the Tenant thereupon in writing, by a notice which shall include a copy of the Building Permit (in this subclause and respectively: "**the Building Permit**", "**the Determining Date**" and "**the Landlord's Notice**"). If the Landlord has not notified the Tenant in writing upon receipt of the Building Permit by the Determining Date, the Tenant shall be entitled to notify the Landlord not later than **1.10.2019**, at the absolute and exclusive discretion of the Tenant, upon the cancellation of this Agreement (hereinafter: "**the Suspending Condition**").

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If the Suspending Condition has not been fulfilled by the Determining Date, and the Tenant has notified the Landlord upon cancellation of this Agreement as stated, under the circumstances set forth in this subclause, this contract shall be null and void, and the Parties hereby waive, fully finally and irrevocably, any contention of any type or kind whatsoever each against the counterparty. If the Tenant has not notified the Landlord of cancellation of this Agreement by 1.10.2019, this Agreement shall be fully valid and its provisions shall bind the Parties for all intent and purposes.

3. **Legal competency.**

The Landlord declares and confirms hereby that -

- 3.1. It is authorized pursuant to its documents of incorporation to engage in this Agreement and to perform it, and that the Parties authorized and entitled to sign upon this Agreement are Messrs. Sharon Tousya-Cohen and Noa Landner, and their signature together with the stamp of the Landlord or its printed name obligates it for all intent and purposes.
- 3.2. That the management of the Landlord has approved, lawfully and in accordance with its articles of incorporation, the engagement in this agreement and fulfillment of its undertakings thereunder and/or as arising therefrom.
- 3.3. That it is entitled to engage in this Agreement in accordance with applicable law and that the engagement in this Agreement and fulfillment of its undertakings thereunder do not constitute a breach of an undertaking toward any third-party. Without prejudicing the generality of that stated, to the best of its knowledge, there are no pending legal and/or quasi-legal proceedings, which have commenced and/or are pending and/or to the best of its knowledge may arise, in connection with the Premises and/or in connection with the process of establishment of the Project and the Building, and there is no decision which may harm the validity and the execution of the engagement in this Agreement or the ability of the Landlord to carry out the entirety of its undertakings pursuant to this Agreement.

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Ceragon Networks Ltd.

The Tenant declares and confirms hereby that -

- 3.4. It is authorized in accordance with its articles of incorporation and documents to engage in this agreement and to perform it and that the Parties authorized and entitled to sign upon this Agreement are Messrs. Ira Palti and Doron Arazi, and their signature together with the stamp of the Tenant, bind it for all intent and purposes.
- 3.5. That the management of the Tenant approved lawfully and in accordance with its articles of incorporation, the engagement in the Agreement, and the fulfillment of its undertakings thereunder and/or arising therefrom.
- 3.6. That it is entitled to engage in this agreement in accordance with applicable law and that its engagement in this agreement and fulfillment of its undertakings thereunder do not constitute breach of an undertaking toward any third-party.

4. **Declarations of the Landlord**

The Landlord declares and confirms as follows:

- 4.1. That it has signed upon it a Development Agreement with the ILA in connection with the Lot that it is the holder of the exclusive rights for development and construction upon the Lot. That the Development Agreement was extended and is valid until 1.3.2019, and that it is unaware of any contention of breach of the Development Agreement and that it is valid and binding upon the parties thereto, and no amendment or supplement was made to it, save for the supplement to the Development Agreement of 1.8.2016, and that as of the date of the signature upon this Agreement, the status of performance of the construction works of the Building is excavation and foundation of the Building in which the Premises is located. The Landlord will act to extend the validity of the period of the development set forth in the Development Agreement, at its expense and exclusive responsibility or in the alternative, to sign upon a lease agreement with ILA.

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- 4.2. That its rights in the Lot and in the Structure are free of any debt, pledge, mortgage, lien, claim, judicial order, administrative order, and any third-party rights. Without prejudicing the generality of that stated, the Landlord declares hereby that it has not sold, transferred, rented, allotted or granted rights whatsoever and has not undertaken to grant any rights whatsoever, of any type or kind in the Premises, to any third-party, and it undertakes not to engage in transactions which contravene this Agreement.
- 4.3. That it has the ability, the know-how, the skills, the experience, the manpower, and the financial fortitude, including the required financing, for performance of all of its undertakings per this Agreement.
- 4.4. That it shall carry out the construction works of the Structure in accordance with applicable law and pursuant to all licenses and/or permits and/or standards and/or required and appropriate Building Permits, from the relevant authorities.
- 4.5. That to the best of its knowledge, use of the Premises in accordance with the Purpose of the Tenancy determined in this Agreement, aligns with the zoning for the Premises.
- 4.6. The Landlord undertakes to maintain the public areas in the Building, itself and/or by means of the management company on its behalf, throughout the Tenancy Period, and the additional Tenancy Period, if exercised, in accordance with the management agreement.

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- 4.7. On the date of the Authorization of access to the Premises, the Landlord will deliver Authorization to access the Premises to the Tenant, when the Premises is in the condition as specified in clause 9.4 below. The Landlord undertakes that not later than the Date of Delivery of Possession, a central emergency generator will be installed in the Structure, to back up the electrical current in the premises at a voltage which shall not be less than KVA50. It is clarified that the Landlord shall have no responsibility of any type or kind whatsoever in connection with the provision of electricity by the generator to the areas of the Premises and the Tenant hereby waives any contention toward the Landlord in connection therewith.
- 4.8. The Landlord undertakes that to such extent as the Tenant will utilize the entirety of the parking spaces available to it pursuant to the provisions of this Agreement, the Tenant shall be entitled, daily, to use additional parking spaces, beyond the 220 parking spaces available to it under this Agreement, on the basis of available parking spaces only, according to the price list prevailing in the parking lot at such time (hereinafter: "**Occasional Parking**"). Payment in respect of the Occasional Parking by guests of the Tenant will be made quarterly and in accordance with the actual use made by the Tenant. For removal of doubt, it is clarified that the Tenant shall not be obligated in any such payment unless it shall simultaneously use and/or shall be used on its behalf, more than 220 parking spaces. The systems installed in the parking space will be tailored and will enable recording in accordance with this arrangement.
- 4.9. The Landlord undertakes that no limitation whatsoever shall apply to the Tenant in replacing the vehicles which are permitted to enter into the parking structure for purposes of utilizing the 220 parking spaces available to the Tenant at any given time in accordance with the provisions of this agreement, and that the obligation of the Tenant in payment for Occasional Parking will be made only if the entirety parking spaces of the Tenant are occupied when an additional vehicle on behalf of the Tenant has requested entry into the parking lot.

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- 4.10. The Landlord will inform the Tenant upon material information of which it is aware in connection with the Property, the surroundings, the Project, the Building and/or the Premises, and which impact the engagement in this Agreement.
- 4.11. The Landlord is aware that the Tenant engages with it in this Agreement subsequent to and in reliance upon each one of its declarations and undertakings pursuant to this Agreement and its appendices.
- 4.12. Breach of one or more of the undertakings of the Landlord pursuant to this clause 4 will constitute breach of this Agreement.
- 4.13. The Landlord shall have no objection that the Tenant shall operate its business and maintain its business open, including having access to the premises and the parking lot, 24 hours a day 7 days a week, subject to the law. It is clarified, for removal of doubt, that the services provided in connection with the Premises pursuant to the management agreement will be provided only in the hours determined in the management agreement and any additional service and/or hours beyond that determined in the management agreement will obligate additional payment and be subject to approval of the Landlord. It is clarified that consumption of air conditioning in the Premises, lighting, and access to the parking space, are services which operate 24 hours a day 7 days a week without requiring any additional payment by the Tenant beyond that determined in this Agreement.
- 4.14. The Landlord will act to amend the Building Permit application to enable increasing the height of the Building by additional floors, such that the Building will be eight floors above the basement. The decision attached hereto as Appendix L4 of this Agreement, is the decision in principle to approve the amended construction plan under which the Building will include eight floors above the basement level.

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5. **Declarations of the Tenant**

The Tenant declares, confirms, and undertakes as follows:

- 5.1. That it has the ability and the financial fortitude to perform all of its undertakings per this Agreement including those required to finance and perform the Tenant Works through completion pursuant to the terms of this Agreement and applicable law.
- 5.2. That its representatives were afforded an opportunity to visit the Property and the Lot, to examine the legal condition of the Lot and the rights of the Landlord therein, as well as its planning status, that they have read and examined all of the appendices to this agreement and the UBP, and found all of them suitable to it and that it waives any contention of fault and/or defect and/or choice and/or other contention in connection with all of these, save for a defect and/or fault and/or non-conformity which are hidden, or a fault which was known to the Landlord prior to the signature upon this contract in connection with the Property, their surroundings, the Project, the Structure and the Premises, and which was not known to the Tenant and was not brought to its attention by the Landlord prior to the signature upon this agreement, and which impact the use of the Premises in accordance with the Purpose of the Tenancy. That stated does not detract from the declarations of the Landlord and/or the obligation of the Tenant to carry out all of the inquiries required of it in connection with the Premises and the Project.

6. **Performance of the Works, the manner of construction, and the Permit**

- 6.1. There shall be attached to this Agreement, the blueprints of the Premises (Appendix D), and the Technical Specifications (Appendix B). The Works will be carried out in accordance with these, subject to the provisions of the Building Permits for the establishment of the Premises and the provisions of applicable law. For removal of doubt it is clarified that the plans are not final plans and changed may occur therein, and provided that such changes shall not materially alter the nature of the Building, its scope, characteristics of use thereof or material changes in the area of the Premises, its location, the division between the floors of the structure, its accessibility, common installations (which harm the reasonable use of the Tenant in the Premises), and no monetary and/or other additional obligations shall be imposed subsequent thereto upon the Tenant, and the rights of the Tenant in the Premises in accordance with the provisions of this Agreement shall not be prejudiced.

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- 6.2. The Landlord has engaged and/or shall engage in an agreement with licensed contractors for the performance of the Works to establish the Building and the Premises therein. In accordance with the provisions of this agreement, and for purposes of planning and construction of the Project, the Landlord shall employ contractors and planners, each licensed in their field, who shall ensure planning and establishment of the Project and the Building.
- 6.3. The chief contractor and/or other professionals who shall carry out the Works on behalf of the Landlord shall be registered contractors in accordance with the Contract Works Registration Law for the Works carried out, as necessary, at the license classification which is necessary for the work carried out by such contractor, where the work carried out by them is pursuant to Israeli regulatory standards, if existing and required at law.
- 6.4. The Landlord will carry out the Works with professional expertise, quality, and at a quality of construction in accordance with the specifications in this Agreement upon all of its appendices.
- 6.5. The Tenant shall be entitled to accompany the performance of the Works, employing a representative on its behalf to visit the Lot and receive explanations from representatives of the Landlord. It is clarified hereby that the entitlement to accompany the performance of the Works does not grant a right to cease or stop the Works, in any manner or form, however, the Representative of the Tenant will be entitled to deliver his remarks to the Landlord in reference and/or related to the quality of the Works, the date of their performance, their conformity to the Technical Specifications and/or the Building Permit and so forth. Any remark and/or demand of the Representative of the Tenant, including methods for its resolution, will be discussed between the Representative of the Tenant and between the Representative of the Landlord.

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- 6.6. In performance of the Works, the Landlord shall make use of materials of a type and a quantity which shall be determined in the Technical Specifications and the plans. In the absence of a determination of type and/or quantity of an item and/or certain material, the Landlord shall make use of materials in compliance with Israeli regulatory standards only, and in the absence of a standard - good quality materials, and in any event grade A materials only, and of inventory existing in Israel.
- 6.7. Immediately upon completion of the Works and prior to the Date of Delivery of Possession in the Premises to the Tenant for performance of the Tenant Works, the Landlord will remove and vacate at its expense from the area of the Premises, all of the installations, materials, surplus, equipment, tools, devices, machines, trash, waste, temporary structures of any type whatsoever related to their performance thereof, as distinct from those related to the performance of the Tenant Works which shall be removed and vacated by the Tenant at its expense.
- 6.8. Cancelled.
- 6.9. The Landlord undertakes to act at its expense to obtain from the relevant authorities and/or any person and/or corporation and/or authority, whose consent and/or approval shall be required, all of the license, permits, and approvals required to construct the Premises pursuant to this Agreement (hereinafter: "**the Licenses**"). It is agreed that upon any discrepancy between the planning provisions, including the specifications, and between the provisions of the Building Permit, the provisions of the Building Permit shall prevail, and the Premises will be constructed in accordance with the Building Permit.

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7. **Cancelled**

8. **Planning of the Tenant Works**

- 8.1. The Tenant will plan and will execute, itself and at its expense, all of the Finishing Works, all in accordance with the provisions of this agreement.
- 8.2. The Tenant will prepare by itself and at its expense, all of the plans required for performance of the Finishing Works in the Premises (hereinafter: "**Finishing Works Performance Plans**"). It is agreed that the Finishing Works will not include works that require Building Permits and/or works involving demolition of parts of the Structure and/or whose performance may harm and/or prejudice and/or detract from the provisions of applicable law and/or safety regulations. The Tenant will prepare the plans in coordination with the building consultants per the list which the Tenant is responsible to receive from the Landlord. Additionally, it is agreed hereby that the Tenant shall be entitled to include as part of the Works, the placing of ten split air conditioners. Responsibility for the split air conditioners, upon all of the implications thereof, shall apply to the Tenant alone, including in connection with their routine operation, their installation on the roof of the Building, and any damage caused to the roof of the Building and/or the Building (such as sealant and so forth) subsequent to the installation and/or operation and/or dismantling thereof. The Finishing Works will be carried out in accordance with plans approved by the Landlord.
- 8.3. The Tenant will produce to the Landlord an architectural plan including staging of the Premises, at a 1:50 ratio, which includes planning for the division of ceilings (hereinafter: "**Division Plans**"). The plans will be approved and signed by the safety consultant. The Landlord will deliver the Division Plans for the reference of the relevant consultants and/or shall provide its remarks to the plans within 14 business days from the date of receiving the plans. In the event that the Landlord shall make remarks, the Tenant shall provide revised plans within 14 business days which accept the remarks.

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The Division Plans as approved by the Landlord shall hereinafter be called: "**the Approved Division Plans**".

- 8.4. After approval of the Division Plans by the Landlord, the Tenant shall prepare and deliver performance plans for review of the Landlord, with respect to the Finishing Works to be carried out at the Premises, including safety, electric, air conditioning, plumbing, and other such plans (hereinafter: "**the Work Plans**"), by 1/2/2020.
- 8.5. In addition to that stated above, the Tenant shall deliver any additional figures and/or information to the Landlord as shall be reasonably be required by the Landlord.
- 8.6. It is clarified that the objection of the Landlord to the plans delivered by the Tenant may arise solely and exclusively for reasons related to the suitability of these plans to the central systems of the Structure and/or non-conformity with legal requirements and/or the engineering and/or architecture of the Structure and/or material reasons of such type which shall be delivered to the Tenant in writing.
- 8.7. It is clarified hereby expressly that remarks by the Landlord and/or approval of the plans shall not impose any obligation and/or responsibility whatsoever upon it, in connection with the planning and performance of the Finishing Works, and that the entirety of the responsibility for planning and performance of the Finishing Works, including their compatibility with the systems of the Structure and/or the provisions of the law and/or any other aspect, is imposed upon the Tenant exclusively.
- 8.8. For removal of doubt it is clarified that in any event where it will be necessary to connect the systems of the Premises to the central systems of the Building or the Project, the Tenant will coordinate such connection in advance and in writing with the Landlord, and with the consultants and/or contractors of the relevant systems who executed the main systems for the Landlord, all of this in order to avoid cancellation of the warranty over the main systems and/or preventing disruption and damage. The Tenant will maintain direct contact with the aforementioned consultants and contractors and will bear all of the costs involved therewith. As a rule, costs for consultants of the Landlord will apply to the Landlord. To such extent as the planning of the Tenant will obligate additional payment to the consultants of the Landlord, the Parties will discuss the manner of division of the payment between them and provided that the Landlord will notify the Tenant in advance of the anticipated additional costs of the consultants.

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8.9. The Tenant shall be liable for any action requiring connection to the central systems of the Building which shall be carried out by it and/or on its behalf, without coordination with the relevant contractors and/or consultants.

8.10. In instances where this agreement does not determine a period of time for response by any of the Parties, a response shall be provided within seven days.

9. **Performance of the Tenant Works**

9.1. The Tenant will carry out, itself and at its expense, all of the Finishing Works until their completion, in accordance with the instructions of the professional consultants. The Tenant undertakes to provide to the Landlord all of the approvals required of it as the party carrying out the Finishing Works, in order to comply with the requirements for a Form 4 for the Building, as specified in clause 11.18 below.

9.2. It is agreed hereby that at the request of the Tenant, the Landlord will participate in the cost of performance of the Tenant Works in the Premises, with partial financing of the Tenant Works in an amount of up to NIS 3,000 per m² (hereinafter: "**the Allowance**") with the addition of VAT at Law. The Tenant will be entitled to notify upon the precise amount of the Allowance which it intends to utilize, if at all, up to three months prior to the date of Authorization.

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Payment of the Allowance will be made to the Tenant only, with the progress of the Tenant Works and against written confirmation (tax invoices) provided by the Tenant to the Landlord upon expenditures actually made for the Tenant Works in the Premises, in the amount requested for payment (and provided that in any event, the Landlord shall not bear more of the total amount of the Allowance as stated), and as against transfer of a tax invoice from the Tenant to the Landlord, and not more than once per month. It is clarified that the Allowance will be delivered 30 days from the presentation of the invoice, and only in respect of costs born by the Tenant in the Works in the Premises, and in any event, payment for furniture and/or equipment will not be included in the Allowance. It is further clarified that the granting of the partial financing as stated shall not constitute a contract for the benefit of any third-party toward any of the planners and/or performers of the modification works on behalf of the Tenant and/or toward any other entity taking part in performance of the modification works, and that this does not impose any obligation and/or any responsibility of any type or kind whatsoever upon the Landlord in connection in connection with the modification works of the Premises by the Tenant.

In consideration for receiving the Allowance, the Tenant shall pay additional rental fees as stated in clause 14.2 below.

- 9.3. The Tenant will engage with contractors for performance of the Finishing Works, who shall be registered contractors with appropriate licenses for performance of the Works as needed. The Tenant will select contractors for performance of the Tenant Works, itself and at its exclusive discretion.
- 9.4. The Tenant will be entitled to commence performance of the Finishing Works on **16.4.2020** (hereinafter: "**the Date of Authorization**"). In the event of delay in the Date of Authorization, the Landlord undertakes to notify the Tenant upon the delay immediately upon learning of such delay, with details concerning the new Date of Authorization, and all without detracting from the provisions of clause 11.3 below concerning a delay in Delivery of Possession, when in the event of a delay in the Date of Authorization, the provisions of clause 11.3 shall apply in accordance with that stated in this paragraph below. The Tenant will carry out the Finishing Works as an authorized user only, and this until commencement of the Tenancy Period as determined in clause 1.24 above and in this Agreement (hereinafter: "**the Authorization Period**").

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For removal of doubt, it is clarified hereby that the Authorization Period shall not be less than eight months (unless the Tenant has completed the Tenant Works in a shorter timeframe). In any event where the Date of Authorization determined in this Agreement will be delayed for circumstances due to the Landlord, and subsequent thereto the Tenant has not succeeded in completing the Tenant Works prior to the Date of Delivery of Possession set forth in this Agreement, the commencement of the Tenancy Period as determined in the provisions of this Agreement shall be postponed by an identical period of time, and the date of production of certificates for the issue of a Form 4 in accordance with the provisions of clause 11.18 below shall be postponed as well.

In the event of delay in the Date of the Authorization which causes a delay in the Date of Delivery of Possession, the Tenant shall be entitled to the compensation set forth in clause 11.3 below.

It is clarified for the sake of removal of doubt that on the Date of the Authorization, the Premises will be in the form of a shell, with the addition of the majority of the screening walls (aluminum) [to such extent as by 1.5.2020 the screening walls shall not be fully enclosed, in the places without screening walls, the Landlord shall be responsible for a temporary solution until the installation of screening walls], markings of the location for the ends of the systems, and when all of the floors in the Premises shall be connected temporarily to electricity and water for purposes of performance of the Works. Furthermore, on the Date of the Authorization, there shall be reasonable and safe access to the Building for performance of the Works in light of the fact that the work of construction of the Building continues to be carried out in parallel. In the framework of performance of the Tenant Works, the Tenant will make use of temporary electrical and water connections and the elevator (external only) located at the Building and which is provided for use of the Tenant, in a reasonable manner, for performance of the modification works of the Tenant in accordance with the provisions of this Agreement.

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At any given moment after the Date of Authorization, there shall be an external or internal elevator for performance of the Works. Additionally, so long as a crane is present at the Building for performance of the Landlord Works, the Tenant shall be entitled to make use thereof without cost in the framework of the Tenant Works. It is agreed that to such extent as the Premises shall not be in the condition as stated above on the Date of the Authorization, the Landlord shall act urgently to complete the repairs and/or defects in order to bring the Premises to the condition set forth in this subclause above and the Date of the Authorization shall be postponed until completion of that stated above, and the commencement of the Tenancy Period shall be postponed respectively, to such extent as the Tenant has not succeeded in completion of the Tenant Works prior to the Date of Delivery of Possession set forth in the Agreement, as a result thereof.

9.5. Subject to fulfillment of all of the conditions set forth below, cumulatively, the Tenant shall be entitled to enter into the Premises, as an authorized party only, itself or contractors/subcontractors/consultants on its behalf, in order to perform the Tenant Works. The following are the conditions:

9.5.1. Cancelled.

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- 9.5.2. The Tenant will coordinate the dates of performance of the Finishing Works with the Landlord in advance.
- 9.5.3. It is clarified that the Landlord Works, including the development of the Lot, will be carried out by the Landlord in parallel to the Tenant Works. Accordingly, the Tenant Works will be carried out in a manner which shall not delay performance of the Landlord Works, or receipt of the certificates required from the various authorities, including Form 4 in particular, and shall be carried out in coordination with contractors at the worksite.
- 9.5.4. The Tenant undertakes to carry out all of its work and all of the preliminary organization for entry into the Premises in a reasonable manner which shall not unreasonably disrupt the remainder of the tenants in the Building and/or the Project. Work involving unreasonable disruption in the circumstances of the matter will be carried out in coordination with the Landlord. The Landlord will include provisions in this matter in the additional rental agreements in the Building.
- 9.5.5. The Tenant has fulfilled all of the provisions in this agreement until such date.
- 9.5.6. The Tenant shall ensure that all of the employees on its behalf will comply with safety requirements at the Project as shall be presented to it in advance and/or in accordance with applicable law.
- 9.5.7. The Tenant will bear all of the costs of performance of the Finishing Works and the costs of the changes and repairs required in the Landlord Works subsequent thereto, if required.
- 9.5.8. The Tenant, itself or by contractors/subcontractors on its behalf, shall carry out its work with professional expertise, at a quality and appropriate level of construction in accordance with the Work Plans for the Finishing Works, all as specified in this Agreement and its appendices.

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- 9.5.9. In performance of the Finishing Works, itself or by contractors/subcontractors on its behalf, the Tenant shall make use of materials of the type and the quantities as determined in the Work Plans for the Finishing Works. In the absence of determination of the type and/or quantity of an item and/or material, only materials meeting Israeli regulatory standards shall be used, and in the absence of such standard, material of a high quality, and in any event a grade A' materials only.
- 9.5.10. Finishing Works shall be managed by a supervisor/project manager on behalf of the Tenant and by skilled professionals for the various works. It is agreed that the Project manager is the responsible party on behalf of the Tenant for performance of the Works at the place of their performance. It is emphasized that this condition is a material condition to the consent of the Landlord that the Tenant carry out works in the Premises.
- 9.5.11. The Tenant and/or parties on its behalf will comply with all provisions of the law concerning performance of the Finishing Works and/or the instructions of the Landlord, and all of the work safety directives, including the appointment of a foreman until completion of the Works, as required at law. The Landlord shall be responsible to appoint a safety supervisor in the Project and the foreman of the Tenant will be bound by his instructions.
- 9.5.12. The Tenant shall be responsible to vacate all waste and/or trash involved in performance of the Tenant Works to a central location determined by the Landlord adjacent to the Building. The Tenant whether itself or by contractors/subcontractors on its behalf, will store equipment and/or material belonging to it and/or contractors/subcontractors on its behalf, solely and exclusively in the Premises and/or in the designated organization area allotted for such purpose by the Landlord, without payment on behalf of the Tenant, and which is not within the bounds of the Premises, and all in accordance with the circumstances at the worksite.

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- 9.5.13. Without detracting from that stated above, the Tenant, whether itself or by contractors/subcontractors on its behalf, shall not carry out changes or supplements in the framework of its works, which harm the exterior walls, foundations, or loadbearing parts of the Building and/or which require a building permit and/or change of the building permit. Furthermore, no connection shall be made to the central systems of the Building without the approval from the relevant consultants, which shall be delivered to the Landlord.
- 9.5.14. All of the professionals who shall carry out the Finishing Works shall be registered contractors under the Registration of Contract Works Law, with a license classification suitable for the Works that are carried out by such contractor, as relevant, where the work is carried out pursuant to the Israeli regulatory standards, if existing and as required at law.
- 9.5.15. The Finishing Works will be carried out in coordination with the consultants of the Building. The Tenant will be responsible for obtaining all of the approvals and permits required, if required, in connection with performance of the Tenant Works however, as shall be required, the Landlord shall sign upon documents required to obtain the approvals required, as the owner of the rights in the Lot, without this imposing upon any liability and/or responsibility and/or undertaking and/or expense which was not imposed upon it pursuant to this Agreement. It is clarified that the Landlord shall not be responsible in any manner for the Finishing Works, their quality and/or damage which shall be caused in respect thereof, save if the damage was caused due to an act and/or negligent omission and/or intentionally by the Landlord and/or parties on its behalf and/or due to breach of the obligations of the Landlord and/or any party on its behalf and subject to that stated in clause 25 below.

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- 9.5.16. It is agreed between the parties that in any event where the Tenant shall breach any of the conditions set forth above, the Landlord shall be entitled to halt performance of the Tenant Works and to remove the Tenant from the Premises, and provided that notice in writing has been issued to it, including details of whatever requires remedying, and the Tenant does not remedy the matter within 21 days, and this, other than in cases where the risk to personal and/or property damage is immediate, in which case notice shall be issued for immediate performance.
- 9.5.17. The Tenant undertakes to produce to the Landlord As-Made plans of the Finishing Works which it has carried out in the Premises, within 60 days from completion of the work. The Tenant will further deliver to the Landlord, performance plans of all of the systems which it has executed in the Premises, in two copies, and in digital media.
- 9.5.18. During performance of the Tenant Works, the Tenant will be required to ensure the periodic cleaning of the areas which the Tenant shall use for performance of the Works. It is clarified hereby that the Landlord will allot the Tenant an organization area in which it shall be able to place containers. The Tenant will ensure to safeguard these areas and will adopt all of the actions including installation of protection everywhere necessary (that stated in this clause does not obligate the Tenant to place guard services). It is emphasized that nonperformance of protection and/or periodic cleaning of such areas, by the Tenant, will entitle the Landlord to carry out this activity and obligate the Tenant in the costs with the addition of 15% subject to advance notice in writing and determination of a remedy period for the breach which shall not be less than three business days unless the circumstances obligate immediate action to prevent safety risks.

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- 9.5.19. The Landlord shall be authorized to supervise performance of the Finishing Works by means of representative on its behalf. It is clarified hereby that the authority to accompany performance of the Finishing Works and the approval of the Finishing Works plans, per se, by the Landlord, does not impose upon it and/or its representative, any responsibility whatsoever in connection with Performance of the Finishing Works.
- 9.5.20. Cancelled.
- 9.5.21. Prior to entry of the Tenant into the Premises for performance of the Tenant Works, the Parties will prepare a written record to document the state of the Premises prior to any entry of the Tenant and/or parties on its behalf into the Premises. To such extent as the Premises shall not be in its condition as specified in clause 9.4 above, the provisions of clause 9.4 above shall apply.
- 9.5.22. For purposes of performance of the Tenant Works to be carried out prior to delivery of possession in the Premises, the Tenant will receive from the chief contractor carrying out the Works on behalf of the Landlord, chief contracting services as specified in Appendix N of the agreement, in consideration for payment of NIS 300,000 with the addition of VAT, which the Tenant shall pay to the Landlord in two equal payment so NIS 150,000 with the addition of VAT, on 1.7.2020 and on 1.12.2020. It is clarified that payment of electricity and water during performance of the Tenant Works shall be in accordance with actual consumption and are not included in the aforementioned payment in this subclause, and shall be born by the Tenant.

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- 9.6. Notwithstanding that stated above, the Tenant shall be entitled, also after commencement of performance of the Tenant Works, to carry out changes to the Finishing Works which were approved, subject to the consent of the Landlord in advance and in writing. The Landlord will approve the request of the Tenant within ten business days from receiving such a request, and shall be entitled to refuse the changes requested only in the event that the changes requested would delay receipt of Form 4, and/or require a change to the Building Permit. To such extent as the Landlord will approve performance of the changes and these changes will cause a delay in the Date of Delivery of Possession, this is not to postpone commencement of the Tenancy Period and the obligations of the Tenant pursuant to this Agreement.
- 9.7. It is agreed hereby that the Tenant shall be entitled to include, as part of the Tenant Works, installation of up to ten split air conditioners in the Premises, which it shall be entitled to remove upon vacating the Premises, when the manner of removal will be carried out in accordance with the provisions of this Agreement. Responsibility for payment in respect of the installation of the split air conditioners, their repair, maintenance, and use and consumption thereof, shall apply to the Tenant alone, and these split air conditioners shall be deemed the exclusive property of the Tenant. Additionally, the Tenant shall be responsible for any damage caused to the roof of the Building and/or the Building (such as seal and so forth) subject to the installation and/or operation and/or dismantling of the air conditioners.

10. Development and Construction of the Project in Entirety

- 10.1. It is agreed between the parties that subject to the provisions of applicable law, including the provisions of the Planning and Building Law and the UBP, the Landlord shall be entitled to utilize the Property and the remainder of the part of the Project, including utilization of existing and/or future building rights in the Lot and/or their transfer to another lot, which are not utilized in the construction of the Structure and/or the Premises, in the remainder of the parts of the Project which are not the Premises, as it sees fit and at its exclusive discretion and provided that this shall not harm the rights of the Tenant under this agreement.

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- 10.2. The Tenant declares that it has been informed that the remainder of the structures which the Landlord shall construct in the Project, including upon the lots adjacent to the Premises, shall be constructed in stages during and/or after completion of the construction of the Premises, and this at a pace at the discretion of the Landlord, and that modification works shall be carried out in other Premises in the Building after its entry into the Premises. The Tenant shall not object or raise any contention and/or claim of any type or kind whatsoever in connection therewith toward the Landlord and provided that the rights of the Tenant under this Agreement shall not be prejudiced, and it shall not be prevented reasonable access to the Premises, the parking spaces of the Tenant and the parking lot, the food court, the elevators and/or it shall not be caused unreasonable disruption to its use in the Premises, including access of the employees to the Premises, and unreasonable noise and dirt levels, and that there shall not be a stoppage of the air conditioning system. Notwithstanding that stated above, it is clarified that the Tenant is aware that modification works of other Premises which include Finishing Works will be carried out also after its entry into the Premises, at hours and times at the discretion of the Landlord and subject to the Landlord undertaking to direct any relevant party that massive drilling works, floor drilling, ceiling drilling, wall chasing in the Building (hereinafter: "**Noisy Work**") will be carried out from 17:00 in the evening and until 9:00 in the morning. The Landlord undertakes to verify that the management company and/or the Landlord and/or any third-party authorized to do so, will ensure enforcement of the provisions of this clause. The aforementioned limitation of hours for performance of Noisy Works shall apply from the date of occupancy of the Premises to the areas in the fourth and fifth floor of the Building, and upon one year from the date of occupancy of the Building, to the remainder of the areas in the Building.

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- 10.3. The Tenant declares that it was informed that the Premises is part of a large and expansive project which includes, inter alia, commercial areas, office buildings and residential areas, and that the Project will be developed and constructed in stages. The Landlord shall be entitled to develop the remainder of the parts of the Project, including the Lot, at a pace which it shall deem appropriate, without the Tenant objecting or raising any contention and/or claim of any type or kind whatsoever in connection therewith toward the Landlord, and provided that the rights of the Tenant under this Agreement shall not be prejudiced, and it shall not be precluded reasonable and safe access to the Premises and/or the parking spaces and/or shall not be caused unreasonable disruption to the use in the Premises in accordance with the Purpose of the Tenancy set forth in this agreement, shall be enabled reasonable, convenient and safe access for its employees to the Premises, and there shall not be unreasonable levels of noise and dirt, subject to that stated in clause 10.2 above.
- 10.4. The Tenant declares and undertakes that it is aware that in the Project and in the Building, there may operate, inter alia, at the exclusive discretion of the Landlord, coffee shops, restaurants, food bars, food stands, and shops of all types, and it declares and undertakes that subject to no disruption and/or nuisance whatsoever being caused to the Tenant which prevent reasonable use in the Premises pursuant to the Purpose of the Tenancy as result of that stated in this subclause, it shall have no contention and/or demand and/or claim in connection therewith, including in connection with the hours of operation thereof, the entry and exit arrangements therefrom, noise, density, smell or other nuisances whatsoever due to their operation.

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- 10.5. The Tenant further declares that the Landlord has not undertaken to it that it shall develop and construct the entirety of the Project and has not committed to a date in which the full development of the Project is to be completed, and all subject to that stated in clause 10.6 below. Until the date of commencement of the Tenancy Period, the following conditions shall prevail: 1) **Access to the structure** will be an access route paved in asphalt or similar materials, such that the path shall be appropriate and comfortable for walking, lit and safe, **a pedestrian route** leading from the complex to the train will be paved in asphalt or in a similar material so that the path will be appropriate and comfortable for walking prior to the date of occupancy. 2) Until the date of the operation of three restaurants in the Project, in addition to the area of the Premises, the Landlord shall rent to the Tenant, for its exclusive use, a hall in the area of the Structure, in an area of 150 m² in the Building in which the Premises is located, not in the basement level as marked in the blueprints attached hereto as **Appendix A** of this Agreement, at a level of finishing (lighting, flooring and air conditioning) with convenient and safe access, which shall serve as a dining room and/or cafeteria, connected to electricity, water, air conditioning and lighting ("**the Restaurant Hall**"), and without payment of rentals fees on behalf of the Tenant, and as against payment of management fees alone as specified in clause 22.2 below. The Restaurant Hall will be available to the Tenant at all hours of operation of the Tenant in the Premises. It is clarified that all of the furniture will be provided by the Tenant and that all of the ongoing costs for the Restaurant Hall, including municipal taxes, electricity, water, and so forth, shall be paid by the Tenant throughout the entire period in which it makes the use thereof.
- 10.6. It is agreed hereby that the provisions of 10.2-10.5 above will apply, subject to that stated below: a) There shall be no change to the Premises itself (including the floor lobby and/or the floor safe-room and/or the floor bathrooms). b) That stated shall not postpone the Date of Authorization and the Date of Delivery of Possession. c) The right of the Tenant to rent the parking spaces and make use thereof as determined in this Agreement shall not be prejudiced. d) No monetary obligations whatsoever shall be added to the Tenant as a result thereof (including in the matter of payment of management fees). e) Cancelled. f) At any time throughout the Tenancy Period, the access routes to the Premises and the parking spaces shall be constructed, paved, and safe, in light of the fact that this is a Project under construction whose occupation has begun.

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- 10.7. It is agreed between the Parties that the Landlord shall be entitled to submit applications to change the UBP at its exclusive discretion and provided that the change will not prejudice the rights of the Tenant in the Premises under this Agreement including the use in the Premises for the Purpose of the Tenancy, and shall not impose upon the Tenant monetary and/or other expenses of any type whatsoever which were not imposed upon it explicitly prior to submission of the application for change of the UBP. The Tenant undertakes not to object to the applications for change of the UBP submitted by the Landlord, all subject to that set forth above in this clause and in clause 10.6.

11. **Delivery of Possession in the Premises and completion of the Landlord Works**

- 11.1. Subject to production of the securities in accordance with the provisions of clause 24 below, and fulfillment of the provisions of this Agreement by the Parties, the Landlord undertakes to deliver the Premises to the Tenant, by 1.1.2021 (hereinafter and above: "**the Date of Delivery of Possession in the Premises**") after the Building was issued a Form 4 allowing occupancy of the Building (subject to that stated in clause 11.18 below) (hereinafter: "**Form 4**").
- 11.2. It is clarified and agreed that delays in completion of the Works and/or delivery of possession in the Premises arising from Force Majeure and/or the agreement of the Parties in writing and/or the decision of a professional expert and/or arising from the Tenant and/or parties on its behalf [hereinafter in this clause: "**Entitling Event**"], shall not be counted in the days under this agreement, and in such instance, the Landlord shall be entitled to postpone the Date of Delivery of Possession in the Premises for the same number of days in which the delay prevailed, and the postponed dates will be deemed the new dates for completion of the Works and/or delivery of possession in the Premises to the Tenant. Nothing in that stated shall detract from the provisions of clause 14.8 below.

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In the event of delay in the Date of Delivery of Possession in the Premises to the Tenant, the Landlord undertakes to notify the Tenant of the delay immediately upon learning thereupon, including details of the new date for delivery of possession, and all without detracting from the provisions of clause 11.3 below.

- 11.3. If possession in the Premises was not delivered on the date as stated in clause 11.1 above, with the addition of the period of time in which a delay, if any, occurred in the delivery of possession due to an **Entitling Event**, as stated in clause 11.2 above, the following provisions shall apply (all of the amounts, with the addition of VAT at law):
- 11.3.1. In respect of every month of delay of the Date of Delivery of Possession in the Premises as defined above, the Landlord shall pay compensation to the Tenant in an amount of **NIS 1,100,000** with the addition of VAT at law and Linkage Differences to the Index (one million one hundred thousand new shekels with the addition of VAT at law) starting from the first day of delay, pro rata for each day of delay (hereinafter: "**Compensation of the Landlord in Respect of the Monthly Delay**") for the index known on the date of performance of the payment and/or the set-off in practice in accordance with the provisions of this Agreement. The Compensation of the Landlord in Respect of the Monthly Delay will be paid to the Tenant by means of a set-off by the Tenant from the payment of the rental fees which it must pay to the Landlord pursuant to the provisions of this Agreement (when the set-off will be carried out on account of the rental fees of the first months of the Tenancy Period) and subject to that stated in subclause 11.3.2.

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- 11.3.2. Delay in delivery of the possession **beyond three months** from the Date of Delivery of Possession in the Premises, will also grant the Tenant the rights to any remedy and/or relief available to it pursuant to the provisions of the law and/or the agreement, and to claim compensation at a higher rate, and this in addition to receipt of the Compensation of the Landlord in Respect of the Monthly Delay as this term is defined in subclause 11.3.1 above, in respect of every month of delay in delivery of possession of the Premises (the Compensation of the Landlord in Respect of the Monthly Delay, as this term is defined in subclause 11.3.1 above, will be provided to the Tenant by means of the set-off as stated in subclause 11.3.1 above or directly from the Landlord without a set-off from the rental fees, at the discretion of the Tenant). Delay in delivery of possession **beyond nine months** from the Date of Delivery of Possession in the Premises, will constitute fundamental breach of this Agreement and grant the Tenant, in addition to the rights to sue the Landlord as stated in this clause, also the right to cancel this Agreement.
- 11.3.3. The Parties declare that the amount of the Compensation of the Landlord in Respect of the Monthly Delay, as defined above, was determined and agreed as liquidated damages, which were assessed by the parties after consideration in advance, as a reasonable amount of damage caused to the Tenant subsequent to the delay in delivery of possession of the Premises for the first three months of delay in delivery of the possession of the Premises, and the Tenant shall have no demand and/or claim and/or contention of any type or kind whatsoever toward the Landlord beyond the Compensation of the Landlord in Respect of the Monthly Delay.

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11.3.4. For removal of doubt it is clarified that all of that stated above regarding the responsibility of the Landlord for delays in delivery of possession of the Premises shall not apply in instances where the delays in delivery of possession arise from an Entitling Event.

11.3.5. Cancelled.

11.3.6. For removal of doubt it is clarified that in the circumstances listed in clause 11.3 above, the lease period **shall not commence** from the original Date of Delivery of Possession in the Premises as defined in clause 11.1 above with respect to the payments applying to the Tenant under the provisions of this agreement, and the Tenant shall not commence payment of rental fees and management fees to the Landlord.

11.4. Cancelled.

11.5. It is clarified that delivery of possession in the Premises, means, that upon delivery of possession of the Premises, the Premises will be constructed (at an envelope level) in accordance with the Technical Specifications (Appendix B to the Agreement), with the addition of the Tenant Works carried out up to such date. It is further clarified, and without prejudicing the provisions of clause 10.2 above (save for the matter of the Noisy Works) that it is possible that some of the development works surrounding the structure will be carried out in parallel to performance of the Finishing Works of the Tenant, and possibly thereafter, and that the majority of the development works in the Lot (meaning in the buildings adjacent to the Structure, located in the Lot) will be carried out after performance of the Finishing Works of the Tenant.

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The Landlord declares and undertakes that on the Date of Delivery of Possession in the Premises, an access road to the Building will be ready and paved in accordance with the provisions of this Agreement, as well as connections to main roads and access for pedestrians and bicycles from the Rosh Ha'ayin train station currently operating, and sidewalks surrounding the Building shall be finished, a pedestrian path leading from the complex to the train will be paved in accordance with the provisions of this Agreement prior to the date of occupancy.

- 11.6. It is agreed that the Landlord shall commence organizing the issue of Form 4 for the Premises, together with performance of the Tenant Works, such that Form 4 for the Premises will be issued after completion of all of the Tenant Works and the Landlord Works, and obtaining all of the required approvals from the Tenant in accordance with the law, as the party carrying out the Finishing Works, in order to receive the Form 4 for the Premises, subject to that stated in clause 11.18 below. Subject to that stated above, handling of the issue of the Form 4 will be at the responsibility and expense of the Landlord alone. It is agreed hereby that delay in receipt of Form 4 will cause similar delay in commencement of the Tenancy Period and the entirety of the provisions of clause 11.3 above, mutatis mutandis, shall apply in such instances as well, subject to that stated in clause 11.18 and 14.8. Delay in the granting of the Authorization and subsequent delay of the Landlord in accordance with the provisions of clause 11.18.1 and 11.18.2 below will afford the Tenant an identical delay in the date of production of the Tenant certificates for obtaining a Form 4, without detracting from the provisions of clause 11.3.
- 11.7. 45 days at least prior to the Date of Delivery of Possession in the Premises, by coordination of the Parties, an advance inspection shall be carried out of the Premises, by the Representative of the Tenant together with the Representative of the Landlord.
- 11.8. The aforementioned advance inspection will be summarized in a report prepared by the Parties in which all of the repairs and/or completions required shall be included, in order that the Works in the Premises will conform to the provisions of this Agreement and its appendices (hereinafter: **"the Inspection Report"**).

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- 11.9. The Landlord will repair the defects, carry out the repairs and completions required as promptly as possible, and if possible, prior to the Date of Delivery of Possession in the Premises. To such extent as a defect may prevent reasonable use of the Premises in accordance with the Purpose of the Tenancy, in accordance with that stated in clause 11.13 below, the Date of Delivery of Possession will be postponed until repair of the defect.
- 11.10. On the Date of Delivery of Possession in the Premises, an inspection will be carried out by Representatives of the Tenant and the Landlord, whether the repairs required were carried out, and the Representative of the Landlord will record a written record of the delivery, in which the remarks of the Tenant, if existing, shall be included. For removal of doubt, it is clarified that a condition to receipt of possession in the Premises is performance of all of the repairs specified in the inspection report by the Tenant which preclude reasonable use in the Premises for the Purpose of the Tenancy (hereinafter: "**the Delivery Protocol**").
- 11.11. Notwithstanding that stated above, in the event that on the Date of Delivery of Possession in the Premises it shall be found that repairs are required which in the opinions of the Parties do not prevent the Tenant from making reasonable use in the Premises for the Purpose of the Tenancy, a Delivery Protocol for the Premises will be prepared despite noncompletion of such repairs, and provided that this shall not detract from the responsibility of the Landlord in everything related to performance of such repairs as promptly as possible. For removal of doubt it is clarified that the preparation of the Delivery Protocol does not, per se, constitute actual delivery of possession in the Premises, and the preparation of the Delivery Protocol, per se, does not constitute confirmation that the Tenancy Period has commenced, to such extent as defects shall be discovered which prevent delivery of possession in the Premises as specified in clause 11.13.

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- 11.12. In the event that delivery of possession will be carried out notwithstanding the outstanding repairs and completions as stated, the Landlord shall carry out the repairs and completions in accordance with the nature of the repair and its urgency in the circumstance of the matter. If the Landlord shall not carry out the repairs within 30 days (provided that there is no obstacle unrelated to the Landlord for the performance of the repairs), with the exception of urgent repairs which the Landlord shall carry out without delay, the Tenant shall be entitled to carry out any repair, provided that there is no dispute as to the responsibility for performance of the repair, subject to issue of written notice to the Landlord of seven days in advance, (unless this is an urgent repair which the Tenant shall be entitled to carry out at the expense of the Landlord immediately, subject to notice of the Landlord, in the event that the Landlord does not act to repair the defect immediately). In such instances, the Landlord undertakes to pay to the Tenant, the reasonable expenses born by the Tenant in respect of the repair, within 21 days of the date of first demand, as against presentation of lawful receipts. Receipt presented to the Landlord for such expenses shall constitute prima facie proof of their accuracy.
- 11.13. In the event where on the Date of Delivery of Possession in the Premises it shall be found that repairs are necessary to the Landlord Works, and in the opinion of the representatives of the Parties, such repairs prevent the Tenant from making reasonable use in the Premises for Purpose of the Tenancy, a written protocol of required repairs will be prepared, while the Date of Delivery of Possession in the Premises, together with the commencement of the tenancy, will be postponed for the period of time in which the repairs and completions will be carried out in practice by the Landlord, as stated in the protocol. Any delay in the date of receipt of possession in accordance with the provisions of this clause, shall correspondingly postpone the dates of fulfillment of the undertakings of the Tenant, without detracting from any other relief to which the Tenant is entitled due to nonperformance of repairs and/or Works by the Landlord pursuant to this Agreement and/or applicable law. Upon termination of the completion works, the Landlord shall invite the Representative of the Tenant to inspect the Premises and the provisions of this clause shall apply, mutatis mutandis.

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- 11.14. After repair of the defect in respect of which the delivery was postponed, if any, the Tenant shall take possession in the Premises (hereinafter: "**the Actual Date of Delivery**") and the Tenancy Period shall commence, as stated above.
- 11.15. Any dispute arising between the Parties concerning the existence of defects, their nature, their repair, and so forth, shall be decided by a Professional Expert as specified in clause 33 below.
- 11.16. After the Landlord shall notify in writing that it is possible, the Tenant undertakes to sign, as early as possible, upon contracts with - Bezeq - the Israeli Communication Company Ltd. (hereinafter: "**Bezeq**"), or another entity which shall provide communication services in the Project, with the Municipality, the Israel Electricity Company and/or the Landlord (hereinafter jointly: "**the Service Providers**"), for which signature is required for water, drainage, electricity and communication services to the Premises by the Service Providers.
- 11.17. Nothing in that stated above shall detract from the responsibility of the Landlord to ensure, at its expense, connection of the Building to the electricity, sewage and water systems, performance of all the infrastructure for connection of the Building to the telephone and communications network and all in accordance with the requirements of the various Service Providers, subject to the Tenant having signed upon the contracts/orders with all of the various Service Providers.

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The Tenant shall bear the cost and the deposits in connection with the installation of telephone lines (save for the main infrastructure to entry into the Premises in accordance with the requirements of the relevant communication companies, which shall apply to the Landlord) by performance of such payment/deposits to the aforementioned Service Providers in a manner which shall not delay completion of the Works with respect to the Premises, and in the alternative the Tenant will be obligated in these payments by the Landlord as against payment of the Landlord to the Service Providers and/or part thereof.

The cost of installation of water/electricity meters shall be born by the Landlord. The cost of routine maintenance in respect of water meters shall apply to the Tenant. The cost of routine maintenance of electric meters shall apply to the Landlord.

- 11.18. As specified in clause 9.1 above, the Tenant undertakes to produce to the Landlord all of the certificates required of it at law and/or per requirements of the Authorities, as the party having carried out the Finishing Works, in order to obtain the required certificates to receive a Form 4 for the Building, by 30.9.2020 (hereinafter: "**the Date of Production of the Certificates of the Tenant for Receipt of the Form 4**"), and all subject to fulfillment of all of the following conditions:
- 11.18.1. The Landlord will produce all of the certificates of all of the laboratories and institutes required of it by the fire department in order to receive fire department certificates by 1.9.2021 required in order to ensure the ability of the Tenant to produce the Tenant certificates to the Landlord for production of Form 4 by 30.9.2020.
- 11.18.2. The Landlord will deliver to the Tenant the full and final list of certificates required from the Tenant in order to receive the Form 4, within four months from the date on which the Landlord has approved the Building plans for purpose of the Building Permit (in any event, the Tenant shall not deliver the plans prior to 15.11.2019 and not later than 1.2.2020. It is further agreed hereby that the Parties will act to approve the plans within one month from the Tenant having delivered the plan for approval of the Landlord).

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- 11.18.3. It is clarified and agreed that delay in production of the Tenant certificates for receipt of the Form 4, beyond 30.9.2020, arising from an Entitling Event as defined in clause 11.2 above, shall not be counted in the days pursuant to this agreement, and in such instance, the Tenant shall be entitled to postpone the Date of Production of the Certificates of the Tenant for Receipt of the Form 4 for the same number of days in which the delay prevailed, and the postponed date will be deemed the new Date of Production of the Certificates of the Tenant for Receipt of the Form 4.
- 11.18.4. The Landlord will assist the Tenant, as possible, in obtaining the certificates required of it, to such extent as required.
- 11.18.5. It is agreed that delay of the Landlord in accordance with that stated in clause 11.18.1 above and/or clause 11.18.2 below, will afford the Tenant an identical delay in the Date of Production of the Certificates of the Tenant for Receipt of the Form 4, without detracting from the provisions of clause 11.3.

The Tenant will submit an application to receive Form 4 for the Premises subject to all of the certificates which are at the responsibility of the Tenant to produce at law and/or in accordance with the demands of the Authorities, having been produced to the Local Council, and that the Finishing Works were performed in accordance with applicable law. It is clarified hereby that delay in the Date of Authorization, will afford the Tenant to delay of the same period of time as the Date of Production of the Certificates of the Tenant for Receipt of Form 4 as stated in this subclause.

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- 11.19. It is clarified that in the event where the Tenant shall not produce the certificates required of it to receive the Form 4 for the Building by the Date of Production of the Certificates of the Tenant for Receipt of the Form 4, the Date of Delivery of Possession will be postponed by an identical period to the period of delay of Production of the Certificates of the Tenant for Receipt of the Form 4, and provided that the delay in the production of the approvals of the Tenant for receipt of the Form 4 does not originate with the Landlord, unless the Landlord has succeeded in delivering possession in practice, on the Date of Delivery of Possession indicated in this Agreement.
- 11.20. If the Date of Delivery of Possession in the Premises was postponed for the circumstances set forth in clause 11.19 above, for reasons which were proven by the Landlord as originating with the Tenant alone, the Tenant shall compensate the Landlord for the damage caused to the Landlord as a result of the delay in occupancy of the Structure as shall be proven, in an amount which shall not exceed NIS 720,000 per month. It is clarified that delay of the Tenant in Production of the Certificates of the Tenant for Receipt of the Form 4 as a result of an Entitling Event as defined in clause 11.2 above, shall not be deemed as delay by the Tenant in fulfillment of its obligations pursuant to this Agreement and shall not entitle the Landlord to the compensation set forth in this subclause with respect to the period of time in which the Entitling Event prevailed, as defined in clause 11.2 above, and this without detracting from the postponement of the Date of Delivery of Possession as stated in clause 11.19 above.
- 11.21. In the event where the Tenant has delayed in Production of the Certificates of the Tenant for Receipt of the Form 4 for circumstances not originating with the Landlord, the following shall apply:
- 11.21.1. Cancelled.

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- 11.21.2. Notwithstanding that stated in provisions of clause 14.8 below, the Tenancy Period and the payment of the rental fees and the management fees which apply to the Tenant in accordance with the provisions of this agreement shall be postponed in accordance with the period of time in which the Tenant delayed in Production of the Certificates of the Tenant for Receipt of the Form 4 to the Landlord, but in any event for a period of not more than one month (hereinafter: "**the Grace Period for the Tenant Approvals**").
- 11.21.3. The Tenant shall be exempt from payment of compensation and/or indemnification in respect of any damage caused and/or which may have been caused to the Landlord in respect of delay in Production of Certificates of the Tenant for Receipt of the Form 4 as stated in clause 11.20 above, for the first month of delay in Production of the Certificates of the Tenant for the Receipt of the Form 4.
- 11.22. Delay exceeding **three months** in the Date of Production of the Approvals of the Tenant for Receipt of the Form 4 will entitle the Landlord to any relief and/or remedy available to it pursuant to the provisions of the law and/or the agreement and/or to sue for compensation at a rate which is higher than that stated in clause 11.20 above. Delay exceeding **nine months** in the Date of Production of the Certificates of the Tenant for Receipt of the Form 4, will constitute fundamental breach of this Agreement in respect of which the Landlord shall have the right to cancel this Agreement as well.

12. No applicability of the Tenant Protection laws

- 12.1 The Lease, the Lessee and the Leased Property are not and will not be protected under the provisions of the Tenant Protection Law (Consolidated Version), 5732-1972 (the "**Tenant Protection Law**") nor under the provisions of any other law currently in effect or which will be legislated in the future, protecting a lessee or a tenant in any manner whatsoever, and the said laws and the amendments thereof, as well as the regulations and/or orders promulgated or to be promulgated thereunder or which will replace them or be added thereto, do not apply and will not apply to the Lease, the Lessee, the Leased Property and the Agreement.

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- 12.2 The Lessee represents that it was not requested to pay, nor did it pay Key Money as defined in the Tenant Protection Law or payments which could be construed or deemed as Key Money, and that all of the works, changes, renovations, improvements and perfections which will be carried out at the Leased Property – if any – are not and will not be fundamental changes, and the provisions of Part C of the Tenant Protection Law will not apply to the Agreement.
- 12.3 Upon the vacating of the Leased Property, the Lessee will not be entitled to any payment from the Lessor and/or from an alternative lessee, neither as Key Money, nor as payment for improvements or installations at the Leased Property, or in any other manner whatsoever.

13. The Lease Period

- 13.1 The Lease Period is as specified in Subsection 1.24 above.
- 13.2 The Lessee will not be entitled to stop the Lease and/or vacate the Leased Property before the end of the Lease Period. If, despite the aforesaid, the Lessee will vacate the Leased Property before the end of the Lease Period, other than due to the lawful termination of the Agreement due to a breach by the Lessor, the Lessee will be obligated to all of the payments applicable thereto under this Agreement, all until the end of the Lease Period, without derogating from the obligation to mitigate the damage applicable to the Lessor under law. The aforesaid shall not prejudice the rights of the Lessor hereunder and/or under law, to order the Lessee to vacate the Leased Property before the end of the Lease Period, in an event which entitles it to do so.
- 13.3 Notwithstanding the aforesaid, upon the lapse of five years from the commencement of the Lease Period, and on a “one-time” basis, the Lessee will be entitled to terminate the Agreement by a minimum 12-month prior notice, namely, the lease termination notice must be provided up to the expiration of the fourth lease year, namely, until **December 31, 2024**. In the event that the Lessee shall notify of the termination of the Agreement, as aforesaid, the Lessee will pay the Lessor, as a *pro rata* reimbursement, due to the Allocation granted to the Lessee by the Lessor, pre-estimated liquidated damages of 50% the Allocation amount actually granted, plus VAT and index linkage differentials, which will be paid to the Lessor on the Lease early termination date, as aforesaid, and the return of possession in the Leased Property to the Lessor.

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The parties declare that the calculation of the Rent as specified in this Agreement, was made based on the assumption that the Lease Period will be of at least 120 months, and therefore, the parties, after having made a calculation, have found that the pre-estimated liquidated damages, as aforesaid, would be reasonable and appropriate compensation and payment, due to the termination of the Agreement before the completion of the entire Lease Period.

For the avoidance of doubt, it is clarified, that should the Lessee not complete the Agreement as aforesaid, upon the expiration of five years from the commencement of the Lease Period, it will not be entitled anymore to notify the Lessor of the termination of the Agreement until the end of the Lease Period as specified in Section 1.25 above. It is clarified that the aforesaid does not derogate from the Lessee's right to notify of the termination of the Lease in the event that the Lessor had breached this Agreement by a fundamental breach, subject to the provisions of Section 29 above.

- 13.4 Without derogating from the provisions of Section 13.3 above, the Lease Period will be extended by two additional lease periods of 60 months each (the "**Additional Lease Periods**"), provided that the Lessee shall notify the Lessor in writing and via registered mail, to the address stated in the heading hereof or to another address notified by the Lessor to the Lessee in writing, no later than 9 (nine) months prior to the expiration of the Lease Period or the first Additional Lease Period, as applicable, that it intends to extend the Lease Period by the first or second Additional Lease Period, as applicable.
- 13.5 The option to extend the Lease Period for the Additional Lease Periods, as specified in this Section, will only apply upon the fulfillment of all of the following aggregate conditions:
- 13.5.1 Until the expiration of the Lease Period and/or the first Additional Lease Period, as applicable, the Lessee has not breached this Agreement by a fundamental breach and/or a non-fundamental breach which had become fundamental, following which the Lessor had provided a notice regarding the termination of the Agreement.

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13.5.2 Until and no later than 30 days before the commencement of the first and/or second Additional Lease Period, as applicable, and as a condition for the extension of the Lease by the relevant Additional Lease Period, the Lessee will extend, for the entire relevant Additional Lease Period the guarantees and securities and will provide them to the Lessor and it will also provide the Lessor with certification regarding the taking out of the Lessee's insurance as specified in this Agreement, also for the relevant Additional Lease Period. Should the Lessee fail to do the same, subject to a 14-day prior notice or a shorter period insofar as the time remaining to the expiration is shorter than 14 days, during which the Lessee had failed to extend the validity of the securities, the Lessor will be entitled to enforce the guarantees and securities and alternatively, demand their extension and take out the necessary insurance pursuant to the provisions of this Agreement, at the Lessee's expense, provided that prior to the expiration of the guarantee, the Lessor had provided the Lessee with a request for the renewal/extension thereof.

13.6 In the event that the Lease will be extended for an Additional Lease Period, all of the provisions of this Agreement including its annexes shall apply also during the Additional Lease Period, *mutatis mutandis*.

13.7 The Rent during the Additional Lease Periods will be updated according to the provisions of Section 14.5 below.

13.8 Should the Lease Period not be extended as specified hereinabove, or the Lessor had notified in writing of its refusal to the extension thereof due to the non-fulfilment of any of the aforesaid conditions, the Lessee will vacate the Leased Property immediately upon the expiration of the Lease Period or the first Additional Lease Period, as applicable. For the avoidance of doubt, in the event that the Lease Period had been extended as aforesaid, upon the expiration of the Additional Lease Periods as aforesaid, this Agreement shall be terminated and the Lessee will not have another option to extend the Lease and it shall vacate the Leased Property as specified in Section 26 below.

14. The Rent

14.1 In consideration for the lease of the Leased Property contemplated hereunder, the Lessee undertakes to pay the Lessor during the Lease Period a monthly rent as specified below:

14.1.1 NIS 40 (forty) per month for every square meter of the office space, plus VAT and index linkage differentials.

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- 14.1.2 NIS 14 (fourteen) per month for every square meter of the storage rooms area on the basement floor, plus VAT and index linkage differentials.
- 14.1.3 NIS 200 (two hundred) for every “unassigned” underground parking space plus VAT and index linkage differentials (for the avoidance of doubt it is clarified that the aforesaid price includes management fees for the parking spaces).
- 14.1.4 NIS 400 (four hundred) for every “reserved” underground parking space, plus VAT and index linkage differentials (for the avoidance of doubt, it is clarified that the aforesaid price includes management fees for the parking spaces).

In other words, a sum total of **NIS 275,560** (two hundred and seventy-five thousand five hundred and sixty New Shekels) for every month of lease, plus VAT and index linkage differentials (the “**Rent**”). For the avoidance of doubt it is clarified that the Rent, as aforesaid, was calculated assuming that the area of the Leased Property, as specified in Section 14.3 below, is 5,500 sqm (offices), 540 sqm (storage rooms) and with the addition of 220 parking spaces.

- 14.2 Furthermore, in consideration for the grant of the Allocation, as specified in Section 9.2 above, the Lessee shall pay the Lessor, throughout the Lease Period, including in the Additional Lease Periods, insofar as they are exercised, an addition to the monthly Rent of NIS 1 per every square meter of the gross Leased Property area for every NIS 100 of the Allocation as defined in Section 9.2 above, plus differentials of linkage to the index of July 2020 as published in August 2020 (the “**Allocation Payments Index**”) and plus lawful VAT (a delay in the date of publication will entail an appropriate delay in the Allocation Payments Index specified in this subsection), for every month of lease (the “**Rent Supplementation**”). The Rent Supplementation will be deemed for all intents and purposes in this Agreement, as part of the Rent, it will be paid together with the Rent and will be calculated according to the amount of the Allocation actually extended to the Lessee.

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The details of the calculation are as follows:

| Allocation | Area of the Leased Property | Amount of investment per sqm of the Leased Property Area | Monthly Rent Supplementation |
|------------|-----------------------------|--|------------------------------|
| X | Y | $X/Y = Z$ | $Z/100$ |
| | 5,550 sqm | | |

According to the calculation, and solely for the sake of illustration – insofar as the Allocation shall be at NIS 3,000 per sqm, the monthly Rent Supplementation per 1 sqm of the Leased Property area throughout the Lease Period, including the Additional Lease Periods, will be NIS 30, all according to the amount of the Allocation to be actually extended to the Lessee.

Insofar as the Allocation shall not be fully utilized by the Lessee, at the Lessee's discretion, the Rent Supplementation will be updated according to the mechanism set forth in this subsection and the actual Allocation amount.

14.3 For the purpose of this Agreement, the "Leased Property Area" for which Rent as aforesaid shall be paid:

- 14.3.1 **For a floor not fully rented** – all of the interior area of the Leased Property, including the full area of the exterior walls and the exterior cladding covering the exterior walls, half of the thickness of the walls common with other leased properties in the building and/or the building core, the area of the columns and beams attached to the exterior walls, even if they are protruding out of the exterior walls line, and the area limited by the external walls, columns and beams, awnings, balconies and technical areas serving the Leased Property exclusively – **all with the addition of a 15% gross/net coefficient.**
- 14.3.2 **For a fully leased floor** – all of the floor contour area (including the core), including the full area of the exterior walls and the exterior cladding covering the exterior walls, the area of the columns and the beams attached to the exterior walls even if they are protruding out of the exterior walls outline and the area defined by the exterior walls, columns and beams, awnings, balconies and technical areas serving the Leased Property exclusively – **all with the addition of a 5% gross/net coefficient.**

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- 14.4 Upon the completion of the construction, the Lessor shall provide the Lessee with the report of a certified surveyor regarding the area of the structure according to which the Rent will be calculated. Should the Lessee dispute the Lessor's surveyor's report, the same shall not constitute a cause for non-payment and/or delay in the payment of the Rent, which will be regularly paid upon the Lessor's demand, however, in the event of a dispute as aforesaid, the parties shall jointly refer to an agreed certified surveyor (the "**Agreed Surveyor**"), who will measure the areas of the structure, according to the agreements set forth in this Agreement, and will prepare a measurement report. In the absence of agreement regarding the identity of the Agreed Surveyor, 7 days from the date on which the Lessee had notified the Lessor that it disputes the Lessor's measuring report, the Agreed Surveyor shall be appointed by the chairman of the Association of Licensed Surveyors in Israel upon the request of either party. The determination of the Agreed Surveyor will bind the parties regarding the area of the building and the Rent. Settlement of accounts regarding the exact Rent will be carried out after the performance of the measuring as aforesaid, as a multiplication of the actual building area as specified in Section 14.1 (whether it is higher or lower than the estimate in Section 14.1 above) by the Rent per sqm. The parties shall equally share the fees of the Agreed Surveyor.
- 14.5 It is agreed that during the first Additional Lease Period, if exercised, the Rent will be increased by a real 4% rate, namely: the monthly Rent from the first month of the first Additional Lease Period will be 104% of the Rent of the 120th and last month of the Lease Period and it will be linked to the index known in the 120th and last month of the Lease Period.
- It is agreed that during the second Additional Lease Period, if exercised, the Rent will be increased by a real 4% rate, namely: the monthly Rent from the first month of the second Additional Lease Period will be 104% of the Rent of the 60th and last month of the first Additional Lease Period, and it will be linked to the index known in the 60th and last month of the first Additional Lease Period. (the Rent during the first Additional Lease Period and the Rent during the second Additional Lease Period will be jointly referred to below as the "**Updated Rent**").
- 14.6 Lawful VAT and index linkage differentials will be added to the Updated Rent, as specified in Section 14.5 above. The Updated Rent will be paid in the manner specified in Section 14.7 below, *mutatis mutandis*.

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- 14.7 Subject to the receipt of a payment request, the Rent plus index linkage differentials and the VAT will be paid for every three calendar months in advance, until the 10th day of the first month of every calendar quarter, by a standing order – authorization to charge an account as shall be provided to the Lessor. In the event that the Lease Period shall begin during a quarter, the first payment of the Rent will include *pro rata* Rent until the end of the first quarter subsequent to the commencement of the Lease Period. A tax invoice for the payment will be issued to the Lessee no later than two weeks from the date of payment.
- 14.8 It is hereby clarified that in the event that the date of possession handover of the Leased Property shall be delayed for reasons related to the Lessee and/or anyone on its behalf, and not for reasons deriving from the Lessor, as specified in this Agreement, the Lease Period shall commence from the date of the original date of possession handover of the Leased Property as defined in Section 11.1 above, and from such date the Lessee shall start paying Rent and Management Fees, without derogating from the provisions of Section 11.21 which will apply, as applicable.
- 14.9 Notwithstanding all of the aforesaid, and without derogating from the provisions of Section 11.21 as applicable, it is hereby agreed that the Lessee will be released from the payment of the Rent during a period of half (0.5) a month from the Possession Handover Date (the “**Grace Period**”). For the avoidance of doubt it is clarified that the Lessee will be exempt during the Grace Period only from the payment of Rent. Management Fees, municipal annuity taxes, electricity and any other payment applicable to the Lessee hereunder will apply thereto also during the Grace Period.

14.10 Option for leasing the remainder of the fifth floor of the building

- 14.10.1 Commencing on the date of execution of this Agreement until the end of 2019, the Lessee shall have an exclusive option to lease the remainder of the fifth floor of the building, in whole or in part, at the Lessee's discretion (marking the area specified in this subsection will be done according to the agreements between the parties), at the same conditions of this Agreement. During that period, insofar as the Lessor shall offer any third parties to rent the remaining floor which is partially leased to the Lessee, it will not derogate from the Lessee's right of option (the “**Right of Option for the Fifth Floor Remainder**”). Should the Lessee not notify, until the end of 2019, of its wish to lease the fifth-floor remainder, the option shall become automatically null and void and the Lessor will be entitled to lease the area at its own discretion.

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14.10.2 The Right of Option for the Fifth Floor Remainder will be subject to the following:

14.10.2.1 The Lessee must notify the Lessor in writing of its will to exercise the Option for the Fifth Floor Remainder.

14.10.2.2 Should the Lessee notify the Lessor in writing of its wish to exercise the Option for the Fifth Floor Remainder, the Lessor shall lease to the Lessee the remainder of the fifth floor, and the Lessee will lease from the Lessor the fifth-floor remainder, under the same conditions of this Agreement, *mutatis mutandis*;

14.10.2.3 All of the provisions of this Lease Agreement will apply respectively to the fifth-floor remainder, including with regard to the amount of the Rent, the amount of the Management Fees, the payment method, the Lease and option Periods, the securities will be increased accordingly, and from the date of commencement of the Lease Period, the fifth-floor remainder will constitute part of the Leased Property under this Lease Contract, for all intents and purposes.

14.10.2.4 It is hereby agreed, that insofar as the Lessee will exercise the option to lease the fifth floor of the building Option for the Fifth-Floor Remainder as specified in this Section, the Lessee will be entitled to lease a number of additional parking spaces, whose number will be in the same ratio to the number of parking spaces that the Lessee had leased according to the provisions of this Agreement, the additional parking spaces deriving from this Section will be subject to all of the provisions of this Agreement, *mutatis mutandis* as applicable.

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14.11 **The Lessee's right to lease additional space in the building**

Commencing from the date of execution of this Agreement until two years following the commencement of the Leased Property Lease Period, the Lessee shall have the right to apply to the Lessor for **leasing** additional areas in the building, on bare shell level, under the terms and conditions of this Agreement (including pertaining to the price for the parking spaces and the Management Fee price) and the Lessor undertakes to lease to the Lessee such additional areas, **provided** that the aforesaid areas are not leased to a third party and/or the Lessor has not been holding negotiations in their respect with another lessee (the "**Additional Areas Option Right**"). The Additional Areas Option Right as defined in this subsection will be subject to the following:

- 14.11.1 The Lessor shall lease to the Lessee the additional areas, and the Lessee shall lease from the Lessor the additional leased property, under the terms of this Agreement, *mutatis mutandis*;
- 14.11.2 All of the other provisions of the Lease Contract shall apply respectively regarding the additional leased property, including with respect to the payment method, providing securities, payment of Management Fees, etc. and from the date of commencement of the lease period in the additional leased property, the additional leased property will be part of the Leased Property hereunder, for all intents and purposes.
- 14.11.3 The Lessee's right to lease additional areas in the building according to the provisions of this Section, shall not obligate the Lessor to lease to the Lessee additional parking spaces and/or storage areas and insofar as they will be leased to the Lessee, this will be according to the parking spaces and storage rooms occupancy at the relevant date and at the Lessor's discretion.

15. **The use of the Leased Property**

- 15.1 The Lessee undertakes to use the Leased Property solely in accordance with the purpose of the Lease and the Lessee undertakes to keep the Leased Property, including equipment and/or facilities and/or systems located in the Leased Property, in good and proper condition and to act in accordance with reasonable maintenance instructions as provided to the Lessee by the Lessor, upon and/or close to the date of delivery of possession.

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- 15.2 Without derogating from the generality of the above, it is clarified and agreed that the Lessee will be allowed to hold a nitrogen tank in the Leased Property, but will not be allowed to hold gas cylinders, gas filling machines, etc. To the extent that a permit is required by law for this purpose, the responsibility for obtaining such permits will apply to the Lessee only. The Lessee undertakes to refrain from causing any damage or loss to the Leased Property or any part of it or to any of its systems or facilities (hereinafter: the "**Damages**") and to repair at its expense in the shortest time as permitted in the circumstances all damages caused by it and/or by someone on its behalf during the Rental Period, including guests, visitors, customers, etc.), including any damage that the Lessee was required to insure in respect of its occurrence in accordance with the provisions of Section 22 below if the Lessee did not insure as aforesaid. Subject to the aforesaid insurance undertaking, it is hereby agreed that the Lessor and/or the Management Company and/or those on their behalf will be responsible for repairing Damages insofar as these were caused by negligent act and/or omission of the Lessor and/or Management Company and/or anyone coming and/or acting on their behalf and/or due to non-fulfillment of their obligations under this Agreement.
- 15.3 It is hereby agreed that the Lessee will not be liable for the special damages, as defined below, which may be discovered during the Lease Period. The Lessor shall repair, at its own expense and responsibility, during the entire Lease Period and the additional Lease Period so long as it is realized, within a reasonable time in the circumstances of the case, the "Special Damages".
- 15.4 For the purposes of this Agreement, "**Special Damages**" indicates:
- 15.4.1 Constructive damage of any kind to the leased structure, to the skeleton frame of the Building (including the skeleton frame inside the leased property), to the roof of the Building, to the curtain walls, to the common areas up to the Leased Property opening, provided that such damage did not result from negligent act or omission by the Lessee and/or anyone on its behalf. To the extent that the Lessor had to insure such damages in accordance with the insurance appendix attached to this Agreement, the responsibility for repair shall be that of the Lessor.

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15.4.2 All defects and/or inconsistencies that will be discovered in the Leased Property that result from poor planning of the Lessor and/or poor construction built by the Lessor and/or its use of defective and/or inappropriate materials, provided that such damages were not due to negligent act and/or omission of the Lessee and/or anyone on its behalf insofar as the Lessor had to insure such damages in accordance with the insurance annex attached to this Agreement, the responsibility for repair shall be that of the Lessor.

Lessee and/or anyone on its behalf insofar as the Lessor had to insure such damages in accordance with the insurance annex attached to this Agreement, the responsibility for repair shall be that of the Lessor.

15.4.3 Defects and/or inconsistencies and/or breakdowns in the Building systems up to the opening of the Leased Property (as opposed to the systems inside the Leased Property) that are not part of the Lessee's responsibility provided that such damages were not due to negligent act or omission by the Lessee and/or anyone on its behalf. To the extent that the Lessor was required to insure such damages in accordance with the insurance appendix attached to this Agreement, the responsibility for repair shall be that of the Lessor.

15.5 It is clarified for the avoidance of doubt that the Lessee shall be solely responsible for all work performed by it, and to the extent that any defect and/or fault and/or damage is discovered, the Lessee will repair and bear full responsibility for itself and at its own expense. Disputes regarding the identity of the party responsible for repairing the damages will be resolved in accordance with the decision of a Professional Expert and the mechanism set forth in section 33 below.

15.6 It is agreed that the Lessor shall be responsible for repairing the Special Damages, at its own expense, within a short time taking into account the circumstances and damages in question, from the date the Lessee will notify it, in writing, of the Special Damages and subject to the Lessee cooperating with it as required in this matter, as long as there are urgent repairs required for immediate damage reduction, the Lessor undertakes to act for repairs immediately and without any delay. If the Lessor does not act as aforesaid, the Lessee may act on its own for the purpose of repairing the Damages, provided that there is no dispute as to the liability for repairing the Damages, subject to giving at least 7 days prior written notice, and the Lessor hereby undertakes to reimburse the Lessee within 21 days from the date of receipt of the first claim, reasonable expenses incurred by the Lessee for the purpose of repairing the Damages against lawful receipts without derogating from the Lessee's rights to claim damages under law and subject to the provisions of this Agreement.

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- 15.7 The Lessee declares that if he does not keep the Leased Property in the condition, level and quality as stated in this Agreement and/or does not repair the Damages and that which requires repair and improvement of the Leased Property and/or return the Leased Property to the Lessee not in accordance with section 27.1 below, the Lessor shall be entitled, but not obligated, following a written notice to the Lessee a reasonable time in advance in the circumstances, and after the Lessee has not acted to make the necessary repairs, provided there is no dispute as to the responsibility for making the repairs, to make reasonable repairs for the purpose of repairing the Damages and/or placing the Leased Property in a condition it was to be delivered to the Lessee under this Agreement, at the expense of the Lessee plus 12% overhead.

The Lessor shall be entitled to enter the Leased Property for the purpose of exercising its right as stated in this section, after prior coordination accompanied by a representative on behalf of the Lessee, provided that the Lessee's proper business conduct in the Leased Property is not impaired.

- 15.8 The Lessee undertakes to fulfill and carry out all the provisions and guidelines, including the provisions of any law regarding the Leased Property, its possession and use, as well as preventive maintenance. The Lessee undertakes not to do in the Leased Property, or in any part of it or in connection with it, anything that constitutes a nuisance or damage to the Lessor or to any third party, for the avoidance of doubt, the Lessor hereby undertakes that this provision also applies to other lease agreements of the lessees in the Building and Project.
- 15.9 The Lessee undertakes to ensure not to pollute its immediate surroundings. The Lessee undertakes to conduct its business exclusively in the Leased Property areas. The Lessee shall pay any fines imposed by the municipal authorities and/or by state institutions, if imposed, for violating the provisions of this section by the Lessee. If fines such as the aforesaid were to be imposed on the Lessor for the Lessee's omissions or acts - the Lessee shall then indemnify the Lessor full amount of the fines as stated above, immediately upon receiving the first request from the Lessor and subject to the indemnification mechanism as defined in Section 25 below, mutatis mutandis.

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- 15.10 The Lessee undertakes to allow the Lessor and/or any of its representatives to enter the Leased Property at all reasonable times, but with prior arrangement, to the extent possible under the circumstances, except in urgent cases, to check the Leased Property or present it to a new lessee (regarding viewings for potential lessees - towards the end of the Lease Period and only by prior arrangement) or to perform work and repairs applicable to it under this Agreement in the Leased Property. The Lessor acknowledges and confirms that if, during and due to the execution of the works and repairs by it and/or on its behalf the Lessee will cause damage and/or impairment to the Leased Property, including any facility and/or object and/or system installed and/or placed in it - it will repair any damage and/or impairment and will return it to its original condition, the work and repairs will be carried out by it as soon as possible, and the Lessee confirms that it will not have any claim or charge against the Lessor for damage to the Leased Property, except for repairing the damage and restoring the condition in accordance with the above. In carrying out the work, the Lessor will take measures to reduce and/or minimize any nuisance and/or disruption to the Lessee's current activities in the Leased Property.
- 15.11 For the avoidance of doubt, it is hereby clarified that the Lessor will not be responsible for or repair any indirect damages that will be caused the Lessee due to defects discovered in the Leased Property and/or due to repairs. The Lessor will take reasonable measures that will be required to reduce the disruptions to the use of the Leased Property due to the works to the extent that they can be minimized.
- 15.12 It is hereby agreed that the Lessee will be entitled to install, under its own responsibility, the Lessee's logo signage on the Building in a location chosen by the Lessee at the front facing Highway 6, with the prior written consent of the Lessor, which it shall only refuse on reasonable grounds, and subject to obtaining any license and/or permit required by law as required. It is clarified that the Lessee shall bear all the costs and expenses involved in placing the said signage. Upon termination of this Agreement and after the Leased Property has been vacated by the Lessee, the Lessee will remove all the signage it has placed, repair the wall and restore it to its original condition. In addition, for the avoidance of doubt, it is clarified that the Lessee will not be subject to any restriction on signage within the Leased Property areas, and that the Management Company will place signage in the Building's entrance lobby and floor lobby, which will not be reduced in quality and level from other lessees in the Building, and shall be without any additional payment from the Lessee to the Lessor and/or Management Company for placing the signage. The Lessor will cooperate with the Lessee and sign an "ownership signature" on all documents required by the authorities so that the Lessee receives the necessary permits to place the signage on the Building, provided that this does not impose a risk and/or liability and/or financial liability not applicable to it under this Agreement. If the Lessor approves the placement of signs on the Building which are larger than the maximum size approved for the Lessee, the Lessee will be given the option to compare its sign to the largest sign approved. In such a case the Lessor will bear the cost of the increase.

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16. Licensing and Licenses

16.1 The Lessee declares and undertakes:

- 16.1.1 That it is familiar with the conditions required for obtaining any license and/or permit and/or approval for the purposes of operating its business and working in the Leased Property, and that prior to signing this Agreement it was given the opportunity to check the master plan, the suitability of the land and the planning documents of the Leased Property for its needs and the purpose of the Lease and the possibility of obtaining all the licenses, permits and approvals legally required to operate the Leased Property and found all of these suitable for the purpose of the Lease and all without derogating from the declaration of the Lessor in general and the declaration of the Lessor in section 4.5 in particular.
- 16.1.2 That it will obtain itself and at its own expense all the licenses and/or permits and/or approvals lawfully required, to the extent necessary, for the purpose of operating and/or conducting a business in the Leased Property, from any municipal and/or local and/or governmental and/or other authority. The Lessee shall provide the Lessor, if required by the Lessor, with a copy of the business license upon receipt and at any time it is renewed. For the avoidance of doubt, it is hereby clarified that the Lessor will transfer, at the Lessee's request, all the permits and paperwork in its possession that the Lessee requires for the purpose of obtaining a business license.

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- 16.1.3 That the Lessor is not responsible for obtaining any such license and/or permit and/or approval. If for any reason the Lessee does not receive a permit to operate its business, subject to the above preamble, this will not make the Lessee exempt from paying the Rent until the end of the Lease Period under this Agreement, unless the impediment to obtaining the said license and/or permit is due to a reason arising from the Leased Property.
- 16.1.4 To ensure, for the duration of the entire Lease Period, the renewal of any license and/or permit and/or approval required, to the extent necessary, for a business in the Leased Property, so that during the entire Lease Period and in any part thereof the business in the Leased Property will be conducted as required by any applicable law and in accordance with the terms of any license, permit, provision, regulation and order issued from time to time by any competent authority.
- 16.1.5 If a competent authority has conditioned the granting of the license, permit or approval necessary to operate the Lessee's business in the Leased Property, in making changes to the Leased Property, the Lessee undertakes to seek the Lessor's prior written consent to make any changes required. The lessor will be entitled to agree to the application or reject it provided that it only refused on reasonable grounds. Without derogating from the generality of the aforesaid and to remove any doubt, the Lessor will be responsible for adjusting the accessibility of the Building, in accordance with the Equal Rights for Persons with Disabilities (Service Accessibility Adjustments) 5753-2013 regulations, and by law. The Lessee's responsibility for accessibility adjustments to the business will be made in the Leased Property areas only.
- 16.1.6 If the Lessor agrees to the application, the Lessee may make the changes to the Leased Property solely in accordance with the terms of the Lessor to be given in writing, and at the Lessee's expense only, and the provisions of section 17 below shall apply.
- 16.1.7 All that is stated in this section (16.1) - except if the non-receipt of the license and/or the permit was caused by an act or omission of the Lessor and/or due to non-fulfillment of its obligations and/or due to the inaccuracy of the Lessor's statements as specified in this Agreement.

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- 16.1.8 It is agreed that the Lessee is eligible to, in coordination and subject to the Lessor's approval, apply for permits, approvals and other agreements that may be required by law by any body, institution, authority, court, etc. for the purpose of obtaining a business license, establishing and operating a business in the Leased Property (the "**Approvals**"). The Lessor undertakes to co-operate reasonably with the Lessee in the procedures for obtaining the permits, as required, and to sign all the documents required for the receipt of the permits by the competent authorities, within a reasonable time from the time Lessee and/or anyone on its behalf contacts the Lessor, provided that the Lessor's signature on the above requests does not impose any cost on it and/or risk and/or liability that does not apply under this Agreement and/or that the required request does not cause harm other Lessee's in the Building and/or Project and/or the nature of the Building .

17. Performance of work at the Leased Property

- 17.1 Other than the Finishing Work, as aforesaid, the Lessee undertakes not to carry out any interior and/or exterior change in the Leased Property, not to make any addition, not to demolish or change any part of the Leased Property and/or any of its facilities and not to allow or permit any repair and/or change and/or addition and/or renovation and/or demolition, without the Lessor's prior written consent. The Lessor may deny the Lessee's request for reasonable grounds which will be explained. The Lessor will be entitled to prevent the performance of any act contrary to this Section and to demolish and remove any change, addition, renovation or repair which will be carried out contrary to this Section, all at the Lessee's expense. Notwithstanding the aforesaid, it is agreed that the Lessee will be entitled to carry out interior changes in the Leased Property whose performance is not contingent upon the receipt of a permit under any law and/or changes which are not structural changes and/or against safety laws, without requiring the Lessor's consent. Soon before the vacating of the Leased Property, and insofar as changes had been made to the Leased Property, the Lessee will remit an As Made plan of the Leased Property after the performance of the changes.

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- 17.2 In any event that the Lessor shall approve for the Lessee to carry out changes and/or repairs and/or renovations and/or additions and/or demolition in the Leased Property, as specified in this Section, the duty of payment for such actions will apply to the Lessee alone, and these actions will be subject to all of the provisions of this Agreement pertaining to the carrying out of works at the Leased Property.
- 17.3 Without derogating from the liability of the Lessee as specified in this Agreement, the Lessee shall be responsible for any damage, of any type whatsoever which will be caused to the Leased Property and/or the project and/or any person due to the works specified in this chapter and/or during the process thereof, if such damage is incurred.
- 17.4 The Lessee will bear the cost of the repair of the Leased Property and/or any part thereof insofar as such repair shall be required for the repair of damage incurred as a result of the performance of the work by the Lessee and/or anyone on its behalf, after the Lessor had so required, all subject to the provisions of this Agreement.
- 17.5 The Lessee shall remove, at its expense, if the Lessor shall so request in writing, any change and/or repair and/or renovation contrary to the provisions of this Agreement as specified in Section 17.1 above, and will restore the same part of the Leased Property subject to the change and/or addition, to its prior condition on the Possession Handover Date, subject to reasonable wear and tear.
- 17.6 Without derogating from the generality of the provisions of this Section and without the same being deemed as the grant of consent and/or permission for the carrying out of any addition and/or construction by the Lessee at the Leased Property, the parties agree that in any event that the built areas in the Leased Property shall be increased, including due to the construction of awnings or covers – the Lessee will pay the Lessor full rent for these additional areas, without derogating from any other remedy available to the Lessor against the Lessee and/or anyone on its behalf regarding these additional areas, including the Lessor's right to demand the demolition of such areas and/or further compensation. For the avoidance of doubt it is clarified that double rent will not be charged for areas on which the Lessee pays Rent.

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- 17.7 All of the repairs and/or changes and/or additions and/or renovations and/or improvements carried out by the Lessee at the Leased Property, whether with the consent of the Lessor or without its consent (in the event that the Lessor's consent had not been obtained – insofar as the Lessor had not ordered the removal thereof as specified in Section 17.5 above), including, for the avoidance of doubt, with respect to the Finishing Works, and which are attached to the Leased Property (all of these shall be referred to below as the “**Changes**”) will be transferred, upon the expiration of the Lease Period, including upon the replacement of the Lessee, to the possession and ownership of the Lessor, and the Lessee waives any claim and/or demand in their respect. For the avoidance of doubt, it is hereby clarified that the Lessee will not be entitled to any payment for the Changes. Notwithstanding the aforesaid, it is clarified that the Changes will not include furniture, interior accessories customary in this type of building, operating equipment, shelving etc. which is not fixed by a permanent fixture to the Leased Property and was installed at the Leased Property by the Lessee and at its expense, and they will belong only to the Lessee, which will be entitled to remove it [them?] in the end of the Lease Period, subject to the Lessee making all of the repairs necessary due to the removal of such equipment.

18. Electricity

- 18.1 It is clarified that the electricity supply to the Leased Property could be on bulk basis, at the Lessor's decision, and in such case the Lessee represents and warrants in that respect as follows:
- 18.1.1 The Lessee represents that it is aware that the Lessor and/or the Management Company is the sole owner of rights vis-à-vis the Israel Electric Corporation Ltd. or anyone on its behalf or in its lieu (“**IEC**”) pertaining to the receipt and supply of electricity in the building. The Lessee confirms that its only correspondent pertaining to the supply of electricity to the Leased Property will be the Lessor and/or the Management Company and anyone on their behalf. It is agreed that the electricity rate will be according to the low-voltage TAOZ [time of use tariff] rate of the IEC and according to a meter.
- 18.1.2 Without derogating from the aforesaid, the Lessee explicitly undertakes that in no event, will it request nor will it be entitled to request direct power supply from the IEC and it will not be entitled to contact the IEC requesting the installation of a separate meter or the performance of direct payment to the IEC, without derogating from the Lessee's right to set up equipment which improves the electricity consumption, subject to the receipt of all of the approvals necessary therefor, if any.

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- 18.1.3 The Lessee hereby undertakes that it will not have any claim for any cause whatsoever against the IEC and/or the Lessor and/or the Management Company, for failure to supply electricity or interruptions in the electricity supply. Without derogating from the aforesaid, if the Lessee shall install any electronic or electric equipment, the Lessee will not be entitled to raise any claim or complaint due to power outage and/or interruptions in the supply thereof.
- 18.1.4 The Lessee undertakes to pay the Lessor and/or the Management Company, on the dates specified by either of them, for any electricity consumption, throughout the Lease Period. The electricity consumption will include the electricity consumption at the Leased Property, including electricity consumption for the air conditioning at the Leased Property, including the energy consumption of the chillers for the Leased Property area, which will apply to the Lessee in addition to the Management Fees.
- 18.1.5 The Lessee confirms and agrees that the Lessor and/or the Management Company and/or anyone on their behalf, will be entitled, after the provision of a 45-day prior written notice, to cut the power supply to the Leased Property due to failure to pay a debt for power supply, that the Lessee must pay according to this Agreement (including the annexes thereto, including the Management Agreement) until the date on which the debt shall be paid, provided that the electricity will be immediately resumed after payment of the debt by the Lessee. The Lessee represents that it will have no claims and/or demands and/or complaints due to the cutting of the power supply as aforesaid. The Lessee hereby releases in advance, the Lessor and/or the Management Company and anyone on their behalf, of any duty to supply electricity to the Leased Property without them being ensured that the Lessee shall pay them the consideration for the electricity to be supplied thereto.

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19. Taxes and payments

- 19.1 The Lessee undertakes to bear and will bear all of the taxes and expenses which will apply for the use of the Leased Property and/or the maintenance thereof during the Lease Period and/or which are lawfully or customarily imposed on lessees and/or holders, as opposed to owners, whether they are currently effective or will be effective in the future (provided that they are not imposed under law on the owners of a property) for the Lease Period only, and to pay the relevant amounts, whether the payment demand in respect thereof was referred to the Lessee or not, on the lawful date due for their payment, and upon the absence of such date, immediately upon the receipt of the Lessor's demand, within 10 days from the receipt of the demand. The Lessor will not withhold the remittance of payment demands which had reached it and apply to the Lessee, as specified above.
- 19.2 The Lessee shall bear all of the business taxes, municipal (annuities, signage, business licensing), governmental and any other taxes deriving from the holding of the Leased Property and/or the lease thereof and/or the use thereof as well as any tax which will apply due to the Lease Period, including new taxes which will be imposed under law on a lessee of a property, as opposed to those imposed on the lessor and/or the owner thereof. It is clarified that the municipal annuity taxes could apply to the Lessee's parking spaces as well.
- 19.3 In addition to the payment of the Management Fees, the Lessee will bear all of the other payments and expenses for the use of the Leased Property and the maintenance thereof, including for water supply, electricity consumed only at the Leased Property, telephone, communication services and so forth. The Lessee confirms that it is aware that the power supply to the Leased Property could be done on bulk basis, at the Lessor's decision, and in such case, it undertakes to make the payments for the electricity consumption according to the bills to be issued thereto by a measuring company (such as Q.L.C.) which will produce the bills in the Building. The water charging will be carried out according to consumption by a measuring company (Q.L.C.). It is agreed that the payments will be made against the receipt of a payment demand which will be remitted to the Lessee from the Lessor.

It is hereby agreed that the costs of **installation** of water meter/s and electricity meter/s will apply to the Lessor. The costs of **regular maintenance** for the water meter/s will apply to the Lessee. The costs of **regular maintenance** for the electricity meter/s will apply to the Lessor.

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- 19.4 The Lessor undertakes to bear all of the payments, levies and taxes applicable by their nature and/or by law to the owners/lessees from the State of land (as opposed to holders) whether they are currently effective or will be effective in the future, due to the Lease Period, such as – all of the payments to the Israel Land Administration, betterment levy, unless it derives from an act or omission of the Lessee contrarily to this Agreement, development levies, including roads and pavements, sewage levies and construction fees due to the Lessor's works. It is agreed that the Lessee will bear the payment of municipal annuity taxes even in a case which it shall be determined that the liability for the payment thereof applies to the owners. Without derogating from the generality of the aforesaid, the Lessor is obligated to the making of any payment pertaining to any of the Leased Property's parts, relating to the period preceding the Leased Property's possession handover date (in relation to any of the Leased Property's parts), even if the payment demand therefor will arrive after the date of Possession Handover to the Lessee, provided that such payment does not derive from the Lessee.
- 19.5 The Lessee undertakes to present to the Lessor, from time to time but no more than once in every lease year, upon the written demand by the Lessor, all of the receipts and/or certifications evidencing that indeed it had paid on time all of the payments applicable thereto hereunder.

20. Payment Delinquency

- 20.1 Should the Lessee be delinquent in the payment of any amount due therefrom to the Lessor according to this Agreement, the Lessee shall pay the Lessor, as applicable, commencing on the first delinquency date, interest in arrears at a rate of Prime + 0.75% per month. Notwithstanding the aforesaid, it is agreed that for an unusual delinquency, including such which is not under the Lessee's control, of up to 14 days, no interest in arrears shall be charged.
- 20.2 The interest will be calculated for the period from the date on which the Lessee should have paid the amount in arrears until the date on which it had actually paid it.
- 20.3 Should the delinquent payment relate to an amount paid by the Lessor to a third party instead of the Lessee and which the Lessee should have paid to such third party, the said interest will be calculated for the period from the date on which the Lessor had paid the delinquent payment to the third party, until the payment thereof by the Lessee, provided that the Lessor had notified the Lessee of the demand and its intention to bear the payment, and allowed it to pay the amount and/or defend against any such demand. Should the Lessor pay the third party any interest and/or a fine in arrears, due to the Lessee's delinquency in payment, the interest and/or fine in arrears, shall be deemed as part of the debt principal which the Lessee must repay to the Lessor, as applicable.

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- 20.4 The payment of interest according to this Section will not derogate from the Lessor's right to any other remedy set forth in this Agreement and/or in any law, including, and without derogating from the generality of the aforesaid, the vacating of the Leased Property and any other remedy deriving from the breach of the Agreement by the delinquency in payment. The receipt of such interest will not be construed as a waiver on behalf of the Lessor of any other remedy and/or as prejudicing any right conferred upon it under the Agreement and/or under any law.
- 20.5 Delinquency exceeding 14 days, in any payment due from the Lessee to the Lessor hereunder, will be deemed as fundamental breach of this Agreement, conferring upon the Lessor all of the remedies conferred upon it hereunder and under any law, pertaining to a fundamental breach of the Agreement, provided that a written notice to that effect had been sent to the Lessee, and the breach of the Agreement was not remedied within 7 days from the receipt of such notice.

21. Transfer and registration of rights by Lessee

- 21.1 Lessee hereby undertakes not to assign or transfer or deliver or sell or lease (including by way of sublease) or pledge its rights under this agreement, in whole or in part, to another or to others, except under the provisions of this agreement, and to not assign or transfer or deliver or lease the Leased Property, in whole or in part, to another or to others, except under the provisions of this agreement.
- 21.2 The Lessee hereby undertakes not to directly and/or indirectly share the lease and/or possession and/or operation and/or management of the Leased Property or any part thereof with another or others, whether as a usufructuary, in exchange or not in exchange for consideration, and in any other fashion that is not in accordance with the terms and conditions of this agreement above.

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21.3 The Lessee hereby undertakes not to register its rights under this agreement or in connection thereto with the Land Registry or the Administration or any other fashion, including the non-registration of a warning note in connection with the aforementioned rights.

21.4 Substitute Lessee

The provisions of Subsection 21.1-21.2 above notwithstanding, the parties agree that the Lessee may assign **all of its rights and obligations under this agreement** (its appendices included) to a substitute lessee (hereinafter: the "**Substitute Lessee**") with respect to an area that constitutes at least 30% of the Leased Area (hereinafter: the "**Area Assigned to the Substitute Lessee**"), subject to the following conditions:

- 21.1.1. The Lessor will approve the identity of the Substitute Lessee. The Lessor may not refuse to approve the identity of the Substitute Lessee except on reasonable grounds that will be stated by the Lessor in writing within 14 days of the day on which the Lessee notified it in writing, while it is agreed, *inter alia*, that the financial strength of the Substitute Lessee and/or its shareholders, the type and nature of its business and its suitability for the permissible uses and/or negative reputation will be regarded as reasonable grounds.
- 21.1.2. The Lessor will approve the collateral provided by the Substitute Lessee and the insurance certificates. The collateral provided by the Substitute Lessee will be regarded as acceptable if they are identical to or better than those provided by the Lessee under this agreement.
- 21.1.3. In such a case, and provided that the Lessee has performed all of its obligations to the Lessor by that date, the parties will sign an assignment of rights appendix in the form attached hereto as Appendix M, which will apply to the Area Assigned to the Substitute Lessee, and this agreement will apply to the Lessee, *mutatis mutandis* (provided that the rights with respect to the entire area have not been assigned), and to the Substitute Lessee, each with respect to its area.
- 21.1.4. After the Lessor and the Substitute Lessee sign the agreement as stated, and subject to the provision of the requisite collateral and insurance by the Substitute Lessee, the Substitute Lessee will replace the Lessee in connection with the Area Assigned to the Substitute Lessee, and the Lessee will not remain liable to the Lessor for performing its obligations under this agreement in connection with the Area Assigned to the Substitute Lessee and during the period of time that begins after the Substitute Lessee enters this area.

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21.2. **Sublessee**

It is hereby agreed that the Lessee may sublease up to 30% of the Leased Area, and strictly under the following conditions (hereinafter: the "**Sublessee**"):

- 21.2.1. The Lessee may sublease, for periods of time that will not exceed the terms of the lease, including the Additional Lease Terms (if those are put in effect), subject to the Lessor's prior and written approval, and it will not refuse to do so except on reasonable grounds, while it is agreed, *inter alia*, that the financial strength of the Sublessee and/or its shareholders, the type and nature of its business and/or negative reputation will be regarded as reasonable grounds. The aforementioned notwithstanding, it is hereby agreed that the Lessor's consent will not be required with respect to a Sublessee that is a related company, parent company, subsidiary, or sister company, as these terms are defined in the Securities Law and/or any other company that is included in the Lessee's group (hereinafter: "**Permitted Substitute Lessee**").
- 21.2.2. The Sublessee will make use of the Leased Property in accordance with the purposes of the Lease and strictly in accordance with this agreement, or any other permitted use that will be approved in advance and in writing by the Lessor.
- 21.2.3. The Lessee will be responsible for the Sublessee's performance of all of the Sublessee's obligations under this agreement and its appendices, and any breach of this agreement by the Sublessee will be regarded as a breach of the agreement by the Lessee, and will entitle the Lessor to all of the remedies available to it under this agreement.
- 21.2.4. The Lessee will continue to be responsible for the performance of all of its obligations under this agreement – directly to the Lessor.
- 21.2.5. The Sublessee will sign a written undertaking whose content is acceptable to the Lessor, according to which it will declare and undertake, *inter alia*, that it knows that it is only a Sublessee of the Leased Property, and that it does not and will not have any independent rights to the Leased Property.

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22. Building management

- 22.1 The public spaces of the building will be managed and maintained by the Lessor or any representative thereof (hereinafter and above, the: "**Management Company**"). The Lessee will enter into an agreement for the building's management with the Management Company, which is attached to this agreement as **Appendix G**.
- 21.3. In exchange for the building's management and for performing the services under the Management Agreement (**Appendix G**), Lessee will pay Lessor or any representative thereof – as of the beginning of the term of the lease under this Agreement – monthly management fees as follows (hereinafter: the "**Management Fees**"):
- 21.3.1. **NIS 15** (fifteen New Israeli Shekels) for each month and for each square meter of the offices, and the areas of the dining hall as stated in Section 10.5 above, in addition to VAT and linkage differences.
- 21.3.2. **NIS 11** (eleven New Israeli Shekels) for each month and for each square meter of storeroom areas on the basement floor, in addition to VAT and linkage differences.
- 21.4. It is hereby clarified that the Management Fees that Lessee pays Lessor consist of fixed amounts, without there being any reduction or addition in the course of the entire term of the lease, i.e., they are fixed management fees that not calculated as a derivative of actual costs (not "cost plus").
- 21.5. Lessee will pay the Lessor the Management Fees together with the rent, as stated in Section 14 above. Linkage differences will be added to the Management Fees as stated in Section 1.20 above, in addition to VAT as required by law.
- 21.6. The parties further agree that the payment of Management Fees will not exempt from or replace municipal property taxes (local authorities) or any other payment that is payable to a local authority under applicable law.
- 21.7. It is hereby agreed that, during the first additional lease term, if put in effect, the Management Fees will increase by 4% (in real terms), i.e.: the monthly Management Fees, as of the first month of the first additional lease term, will be 104% of the Management Fees of the 120th and last month of the lease term, and they will be linked to the known index of the 120th and last month of the lease term.

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It is hereby agreed that, during the second additional lease term, if put in effect, the Management Fees will increase by 4% (in real terms), i.e.: the monthly Management Fees, as of the first month of the second additional lease term, will be 104% of the Management Fees of the 60th and last month of the first additional lease term, and they will be linked to the known index of the 60th and last month of the first additional lease term.

21.8. Canceled.

23. Insurance

Without derogating from the Lessee's obligations and liability under this agreement and/or applicable law, the insurance provisions that will apply to the Lessee are in accordance with the provisions of the Insurance Appendix attached to this agreement as Appendix I, which constitutes an integral part thereof. For the avoidance of doubt, it is hereby clarified that the Lessee will not perform any work in the Leased Property before it procures all of the requisite insurance policies.

24. Guarantees and collateral

24.1. In order to secure all of the payments and obligations of the Lessee under this agreement, in accordance with this agreement and its appendices and/or under applicable law, including payments for costs incurred by the Lessor as a result of a breach of the agreement by the Lessee and damages payable to the Lessor by the Lessee, etc., the Lessee will provide the Lessor with the following collateral on the dates stated below:

24.1.1. An autonomous bank guarantee provided by an Israeli bank, in the form attached hereto as Appendix J, and in the amounts and on the dates set forth below (hereinafter: "**Bank Guarantee**");

24.1.1.1. A bank guarantee in the amount of three months of rent (rent, Management Fees and VAT), and without the addition to the rent pursuant to the Allocation, in addition to VAT as required by law, will be provided to the Lessor by October 5, 2019, provided that this agreement has not been terminated by the Lessee in accordance with Section 2.3 above (hereinafter: the "**First Bank Guarantee**").

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24.1.1.2. A second bank guarantee (hereinafter: the "**Second Bank Guarantee**") will be provided to Lessor in exchange for the usufruct in the Leased Property for the purpose of commencing the Lessee's works and as a condition therefor, and its amount will be determined according to **one** of the following alternatives:

24.1.1.2.1. If an Allocation **is not provided** to the Lessee by the Lessor for the performance of the adjustment works, the Second Bank Guarantee will amount to only one month of rent (rent and Management Fees), in addition to VAT as required by law.

24.1.1.2.2. If an Allocation **is and/or will be provided** to the Lessee by the Lessor for the performance of the adjustment works, the Second Bank Guarantee will amount to three months of rent (rent and Management Fees, in addition to VAT).

24.1.1.3. A third bank guarantee (hereinafter: the "**Third Bank Guarantee**") will be provided to the Lessor in exchange for delivering the possession of the Leased Property, provided that the Lessee received an Allocation from the Lessor for the purpose of performing the works. The Third Bank Guarantee will amount to the Rent, as this term is defined in Section 14.2 above, in addition to VAT as required by law, for a period of six months.

30 days before the expiration of the Bank Guarantee, if the bank guarantee does not cover the entire lease term and/or the options, as the case may be, the Lessee will renew the bank guarantee for another year. If the guarantee is not renewed, the Lessor will have the right to demand the guarantee's realization, or, in the alternative, to enable the bank to renew the guarantee, provided that, prior to the expiration of the guarantee, the Lessor requested that the Lessee renew or extend it.

24.1.2. Three promissory notes in the form attached to this agreement as **Appendix K** (hereinafter: the "Promissory Notes"), each in the amount of 4 (four) months of rent, and of 12 months of rent in total in addition to VAT as required by law, signed by the Lessee. The Lessee hereby exempts the Lessor from all noteholder duties, including with respect to presentation for acceptance or payment purposes, animus contrahendi and notice of dishonor. Moreover, the Lessee may, although but is not required to do so, and at its sole discretion, fill out the note, draft it, and supplement it in any way.

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24.1.3. Canceled.

The Bank Guarantee and the Promissory Note will be jointly referred to hereinafter as the "**Collateral**").

- 24.2. From time to time, the Lessor may demand the full or partial payment of the Collateral, for the purpose of paying any amount that Lessee owes Lessor under this agreement, and which was not paid on time, or if the Lessee did not vacate the Leased Property and not return the possession thereof to Lessor, in accordance with the provisions of this agreement, and all provided that it informed the Lessee of this 21 days in advance and in writing, or gave a shorter notice if the period of time that remains until the expiration of the guarantee is shorter than 21 days, during which the Lessee did not pay Lessor the amounts that it is obligated to pay under the provisions of this agreement and/or did not cure the fundamental breach, as the case may be.
- 24.3. In any event where one of the collaterals provided by the Lessee is forfeited as stated above, Lessee undertakes to provide an identical and substitute collateral for the full amount that was forfeited.
- 24.4. The Lessee declares and undertakes that the provision of the Collateral under this agreement and/or its realization by the Lessor does not constitute a waiver of and/or does not derogate from any of the Lessor's rights, including, without derogating from the generality of the foregoing, its right to any other remedy that it has under applicable law, provided that this will not constitute double compensation.
- 24.5. Moreover, it is hereby clarified and agreed that the Collaterals that are provided by the Lessee in accordance with this agreement will be independent of each other with respect to their realization, and will be in addition to each other, and will not derogate from each other.
- 24.6. The Collateral will be returned to the Lessee within 60 days of the final settlement of accounts and the vacating of the leased property, in accordance with the provisions of this agreement, and subject to the performance of all of the Lessee's obligations under this agreement and applicable law.

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24.7. The aforementioned notwithstanding, it is hereby agreed that the Lessee may not realize any of the Collaterals before a written notice of this intention is sent to the Lessor, which will also state the cause for the demand to realize the collateral and the realization amount, and that the Lessee did not cure the alleged breach within 21 days of receiving notice, and provided that the collateral did not expired during that time, in which case the Lessor may immediately realize it.

25. Liability and Indemnity

“Indemnity mechanism” – Wherever this Agreement determines that the Renter should indemnify the Landlord; **the Renter** will indemnify the Landlord for any sum that the Landlord will effectively incur due to and/or as a result of failing to fulfil a requirement of any authority with relation to the activity of the Renter in the rented property, and/or as a result of damages caused by the Renter and/or by anyone on its behalf, and any damage occurring that the Renter should have insured in accordance with the provisions of Clause 23 above and the Renter did not insure as aforesaid; and/or as a result of a third party’s claim for payment of any funds deriving from the breach of the Renter’s obligations as stated in the Agreement, and for which a verdict has been given and its execution has not been delayed. It is agreed between the parties that in the event that a claim against the Renter had been submitted as aforesaid, for which the Landlord can demand indemnification from the Renter as aforesaid, the Landlord will inform the Renter as soon as possible and in writing. The Landlord will cooperate with the Renter insofar as it is required to do so by the Renter while defending itself from any claim as aforesaid. After informing the Landlord in writing, the Renter will be able to defend itself against a claim as aforesaid, including addressing legal advice, separate to that of the Landlord. To alleviate any doubt, it is clarified that the Landlord will not compromise or reach any agreement concerning a claim, demand, or legal action as aforesaid without the Renter’s consent.

25.1 The Landlord and anyone acting in its name or on its behalf will not be liable, in any way, for any damage and/or expense, caused to the Renter and/or anyone on its behalf, and/or to its business [can also be translated as to the deal – Translator’s note], and/or to its property, including – and without derogating from the generality of the aforesaid- damage or harm caused by the entry of the Landlord or anyone on its behalf to the rented property for any of the purposes set forth in this Agreement, unless these were caused by a negligent act and/or default of the Landlord and/or the management company, and/or anyone who comes and/or who acts on their behalf and/or due to failure to fulfil their obligations.

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- 25.2 To alleviate any doubt and without prejudice to the aforementioned in this clause, it is clarified that the Landlord, and anyone acting in its name and on its behalf, will not assume any responsibility and/or any liability whatsoever for bodily damages, and/or loss, and/or damage to property of any type (hereinafter in this Sub-clause: **"the damage"**), which will be caused to the Renter and/or to its workers, and/or anyone on its behalf, including – and without derogating from the generality of the aforesaid – to employees, agents, contractors, clients, visitors, and/or any other person who will be present in the rented property or another territory held by the Renter. For the purpose of this Clause no.25, "anyone on their behalf" means – workers, suppliers, contractors, sub-contractors, clients, etc. The aforesaid in this clause does not hold the Landlord responsible for damages that were not caused by its act and/or its default and/or that of anyone acting on its behalf.
- 25.3 The Renter will not be liable for any loss and/or damage, and/or expense caused to the rented property and/or to the project, and/or to any of its parts, and/or its content, and/or to the Landlord and/or to anyone on their behalf, and/or any third party, unless they result from a negligent act and/or omission of the Renter relating to the management of its businesses in the rented property and/or its maintenance and/or for using the rented property, and/or from renting it and/or any negligent act or omission of the Renter or anyone on its behalf. The aforementioned in this clause does not hold the Renter responsible for damages that were not caused by its act and/or its default and/or that of anyone acting on its behalf.
- 25.4 Pursuant to the indemnification mechanism as defined in this clause, the Renter undertakes to indemnify the Landlord for damage or expense caused to them due to a claim which would be filed against it, civil or criminal, and due to the need to defend itself against the claim as aforesaid, insofar as this claim results from the Renter's failure to fulfil its obligations according to this Agreement, or breaching an obligation as aforesaid; including any claim for damages or expenses which the Renter is liable for in accordance with the provisions of this Agreement.
- 25.5 **To alleviate any doubt, it is clarified that all the provisions of Clause 25 are subject to the indemnity mechanism as defined above.**

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26. Encumbrance or Pawn [made] by the Landlord

- 26.1 The Landlord is entitled to encumber, and/or to pawn, and/or to convert, and/or to sell, and/or to rent, and/or to lease, and/or to transfer this Agreement, all or part of it, and/or its right according to the Agreement, all or part of them, and/or its rights to the property and to the lot, to other or others, in any way the Landlord finds fit, according to its sole and absolute discretion, without the need for the Renter's consent, as long as in any case, the encumbrance, as aforesaid, does not harm and/or detract any of the Renter's rights according to this Agreement, including its right to use the rented property according to this Agreement, and/or from the Landlord's obligations towards the Renter in any way or form (and this without harming the Landlord's right to convert and/or to sell, and/or to lease, and/or to transfer this Agreement, as aforesaid), and/or to inflict on the Renter additional liabilities beyond those stated in this Agreement. The Landlord will inform the Renter about the assignment of the Landlord's rights as aforesaid in this sub-clause.
- 26.2 Without detracting from the provisions of Clause 26.1. above and pursuant to the provisions, the Renter undertakes to accept and fulfil all the provisions of this Agreement towards anyone who comes instead of the Landlord, if they come, as long as the pawn, encumbrance, conversion, sale, rent, lease or transfer as aforementioned, cannot and will not detract from the Renter's rights according to this Agreement or add to its obligations according to it, whether financial or other of any sort or type and/or detract from the Landlord's obligations according to this Agreement (and this, without harming the Landlord's right to convert, and/or sell, and/or rent, and/or lease and/or transfer this Agreement, as aforesaid).
- 26.3 Subject to the aforesaid in Article 26.1. above, the Landlord is entitled to pawn, and/or to encumber, and/or to transfer, and/or to convert, and/or to sell, and/or to lease, and/or to rent its rights to the lot and/or to the rented property, all or some, and/or carry out any activity pertaining to them, and to include any entity in the management and/or the ownership of the rented property as it sees fit and according to its sole and absolute discretion, and without any need for the Renter's consent, providing that it does not harm the Renter's rights according to this Agreement and/or the Renter's ability to make use of the rented property according to the provisions of this Agreement and/or to impose any financial and/or other obligations on the Renter.
- 26.4 Insofar as the Landlord asks for the Renter's signature on a document or on an authorisation which will be required in the Landlord's opinion, for one of the causes listed in this clause, the Landlord will address the Renter, and the Renter will sign on the required documents providing that the aforesaid document and/or authorisation do not detract from the Renter's rights according to this Agreement and/or do not impose on the Renter additional obligations whether financial or other, which are not explicitly imposed on it according to this Agreement.

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27. **Vacating**

27.1 The Renter undertakes that immediately upon the end of the Rental Period or the lawful cancellation of this Agreement, whichever the earlier (hereinafter: the “**Rented property Vacating Date**”, it will vacate the Rented property and will hand over its possession to the Landlord, the Rented property being clean, free of any person and object that does not belong to the Landlord, in a good, serviceable state subject to reasonable wear (considering that it is a rental period that may last (to the extent that the additional rental periods are realised) 20 years). The Rented property will be handed over to the Landlord, including any renovation, improvement, extension, modification, fixing or installation that is permanently connected to the Rented property, including the air conditioning system (except for any other electronic and/or electrical system and/or any furniture that has been installed by and at the expense of the Renter) that will become the property of the Landlord, even if these were installed in and/or added to the Rented property by the Renter at its own expense. It is clarified that the Renter will remove at its own expense any modification and/or extension and/or renovation and/or improvement, etc., which it has executed and/or installed in the Rented property in contravention of the provisions hereof, as long as the Landlord has requested it, and will repair anything requiring repair due to the removal of the extensions as aforesaid. In addition, the Renter will be allowed to remove the split air conditioners that it has installed (to the extent that they have been installed), as long as the Renter repairs everything requiring repair due to the removal of the said split air conditioners.

14 days before the Rented property Vacating Date, a visit will be held in the presence of the Renter and/or the representative on its behalf and the representative of the Landlord, for inspecting the Rented property, and a protocol will be made out and signed by both parties, listing all requirements of the Landlord, if any, with respect to the condition of the Rented property as aforesaid, and the Renter undertakes to execute them in their entirety, including repairing and removing anything requiring repair and removal in accordance with the provisions of this Agreement. The Landlord is entitled not to conduct this visit and this will not derogate from the rest of the provisions in this Agreement.

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- 27.2 To alleviate any doubt, doubt, it is clarified that any object and/or equipment and/or accessories that are not considered the property of the Landlord according to this Agreement and that have remained in the Rented property after its vacation by the Renter will become, after giving the Renter 14 days' advance written notice, the property of the Landlord, upon vacating, and the Renter waives any claim and/or demand and/or legal action for them.
- 27.3 The Renter undertakes that if it does not vacate the Rented property as set forth in this clause, it will pay the Landlord for each day of default starting from the first day of default a total, final payment equal to 200% of the rent as it will be in effect at the time the vacating is required (based on a daily calculation), per days prescribed in this Agreement and constituting total, final and absolute payment for this period in relation to the rent and for a period of three months (hereinafter: the "**Liquidated Damages**"). The Renter declares that his payment has been established and agreed to between the parties as fixed, predetermined damages, which have been estimated by the parties after advance contemplation as being the reasonable damages amount incurred by the Landlord due to the failure of the Renter to vacate the Rented property at the Rented property Vacating Date, and the parties agree that this total has been established by them after making a cautious estimate of the damages that the Landlord may incur as a result of a delay in vacating the Rented property, and that this relief will be the only relief to which the Landlord will be entitled, beyond which the Landlord will not be entitled to any additional compensation of any kind for the period of the first three months of default in vacating the Rented property.
- 27.4 A default in vacating the Rented property will be, in addition to the aforementioned, a fundamental breach of the Agreement, and will qualify the Landlord to the relief prescribed in Clause 27.3 above only for the period of the first three months starting from the Rented property Vacating Date, without derogating from any right of the Landlord to demand the vacating of the Rented property. A default in vacating the Rented property **exceeding 3 months** will qualify the Landlord for all statutory relief available to it for the said breach besides the damages prescribed in Clause 27.3.
- 27.5 For alleviating any doubt, the Renter declares that the statements in Clause 27.3 above do not prejudice any right of the Landlord, including but not limited to the right of the Landlord to realise the Collateral given to it and the right of the Landlord to claim the fulfilment of all of the Renter's undertakings according to this Agreement and/or act to have the Rented property vacated immediately, and no payment pursuant to this clause releases the Renter from the duty of vacating the Rented property.

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To the extent that the Renter has paid the Liquidated Damage demanded of it in accordance with the provisions of Clause 27.3 above, the Landlord will not be allowed to realise the Collateral for the purpose of collection of the said Liquidated Damages.

- 27.6 Without detracting from the provisions of Clause 27.3 above, the Renter declares and undertakes that if it does not vacate the Rented property on time, the Landlord will be entitled after a three month default in vacating the Rented property, in addition to the relief conferred to it in this Agreement and by any law, to claim from the Renter all amounts, payments, taxes, undertakings, appropriate usage fees, expenses, losses and any other payment for the period between the Rented property Vacating Date and its actual vacating date, and all this, without prejudice to the duty of the Renter to vacate the Rented property. For alleviating any doubt, it is clarified that the Landlord will be entitled to payments for the rent for the period of the first three months of default in vacating the Rented property in accordance with the provisions of Clause 27.3 above.

For alleviating any doubt, the Renter declares that payment and/or giving of an appropriate usage fee and/or payments pursuant to this clause do not form any rental relations between the parties for the period after the Rented property Vacating Date.

28. Final settlement of accounts

- 28.1. At the end of the lease period, or upon the lawful termination of this Agreement, a final settlement shall be made between the Lessor and the Lessee (herein above and herein below in this Agreement: the "**final settlement**").
- 28.2. For the purpose of implementing the final settlement, the Lessee shall submit to the Lessor confirmation from any municipal and / or governmental and / or other authority and / or from any other entity which the Lessee undertook to make various payments to, directly or indirectly, in accordance with this Agreement; attesting to the fact that as of the date of the confirmation the Lessee has settled all of the payments for the lease period, including the principal and / or interest and / or index linkage differentials and / or fines and / or any other debt in respect of the aforementioned period.

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28.3. A condition for implementing the final settlement and / or for any payment on the part of the Lessee thereafter is the evacuation of the leased property on the date on which the leased property is vacated by the Lessee.

28.4. The parties shall work to ensure that the final settlement shall be completed no later than the end of 90 (ninety) days from the date on which the leased property shall be vacated.

29. Remedies of the parties for breach of the Agreement

29.1. The provisions of the Contracts Law (Remedies for Breach of Contract), 5731-1970 shall apply to this Agreement, unless otherwise explicitly and / or implicitly determined in this Agreement. The parties declare that there is nothing stated in this Agreement which exhausts all of their rights and remedies in respect of breach of this Agreement by the other party, and there is nothing in it which infringes on any right and remedy granted to them pursuant to this Agreement and to any law, or which derogates thereof.

29.2. In the event that a party to this Agreement shall violate all or any part of this Agreement, or any of its terms (herein below: the "infringing party"), which are not fundamental conditions, by means of a breach which shall not be remedied within 45 days from the date of receiving written notification from the aggrieved party (herein below: the "aggrieved party"), shall be entitled to terminate the Agreement forthwith, and all of which without this infringing on any right or other remedy of the aggrieved party pursuant to the terms of this Agreement and / or pursuant to any law.

29.3. In addition, the Lessor shall be entitled to cancel this Agreement if a decision is reached (herein below - the "decision") in respect of the voluntary liquidation of the Lessee; or by the Court, or on the appointment of a temporary or permanent Liquidator for the Lessee; a temporary or permanent Receiver, or if a receivership order is issued for all or a fundamental portion of the properties of the Lessee; or if a foreclosure order and / or a stay of proceedings is issued against all of the assets of the Lessee and / or a fundamental portion of them; or if the Lessee reaches a settlement with the creditors thereof, and the decision is not revoked within 90 (ninety) from the date on which it was given. The Lessee undertakes to revoke any decision within 90 (ninety) days from the date it was given, and declares that failure to revoke the decision within 90 (ninety) days shall constitute a fundamental breach of the Agreement, and the other party shall be entitled to any remedy granted to it pursuant to the terms of this Agreement and / or pursuant to any law.

29.4. There is nothing in the aforesaid which shall derogate from the right of the Lessor to sue the Lessee for any anticipated breach, subject to what is determined by law, including receiving any remedy arising thereof, and this without derogating from the right of the Lessee to voice an objection thereto.

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30. VAT

For the avoidance of doubt, any payment that any party is required to pay to the other party, pursuant to this Agreement, and / or as a result thereof, shall be subject to VAT (if this shall be required in accordance with law) which is to be paid by the party liable for the aforementioned payment to the party which is entitled to receive it - in exchange for a lawful tax invoice, in addition to the principal payment.

31. Business day

In any event in which a date has been determined for the implementation of a payment in accordance with this Agreement and / or as deriving from a date which is not a business day, the date of making that payment shall be postponed to the first business day subsequent to that date.

32. Construction works, maintenance and repairs

The Lessee hereby agrees that at any time, and also subsequent to the completion of the leased property and / or the building and / or also after transferring possession of the leased property to the Lessee and / or after registration of the rights on behalf of the Lessor, the Lessor shall be entitled to perform construction, maintenance, repair and management works which are necessary and / or connected with the leased property or in the project, for the purpose of implementing its obligations pursuant to this Agreement or in order to preserve its rights pursuant to this Agreement, even if this results in reasonable disturbances in the use of the leased property, on condition that such works are arranged in advance with the Lessee (in the event that the works are implemented on the leased property) as far as possible under the circumstances, and that the Lessor takes reasonable means to reduce the disturbances to the extent that it is possible to minimize them and return the situation to its former state as soon as possible after the execution thereof; and all of which as determined in this Agreement herein above, including the repair of any damage which was caused as a result of conducting the works on the leased property and / or its facilities as a result of such works and all of which subject to the following:

- 32.1. There shall be no change in the leased property itself (including the lobby of the floor and / or the protected space on the floor and / or the services on the floor);
- 32.2. There shall not be anything in the aforesaid that postpones the date of granting the authority and the date of handing over possession;
- 32.3. There shall be no detracton from the right of the Lessee to lease and use the parking spaces as determined in accordance with this Agreement;

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- 32.4. No financial obligations whatsoever shall be added to the Lessee as a result of this (including in the matter of payment of management fees);
- 32.5. There shall be means of access to the leased property and to the built, paved and secured parking lots at all times during the lease period, taking into account the fact that this is a project which is still under construction.
- 32.6. At the time of handing over possession, the construction of the entrance floor through which the Lessee gains access to the leased property (including the parking lots) shall be completed.
- 32.7. At the time of handing over possession of the leased property, all of the systems shall be in proper and good working order, with at least 2 elevators reaching the floor of the leased property and the floors of the parking lot.
- 32.8. The Lessor undertakes to instruct any relevant party that massive drilling work, floor drilling, ceiling drilling, and excavation in the building (herein below - the "**noisy works**") shall be carried out from 17:00 in the evening through until 9:00 in the morning. The Lessor undertakes to ensure that the management company and / or the Lessor, and / or any third party authorized to do so shall ensure the enforcement of the provisions of this clause. The aforesaid limitation of hours in respect of the execution of the noisy works shall apply from the date of occupancy of the leased properties on the areas on the fourth and fifth floors of the building, and at the conclusion of one year from the date of the building being occupied on all of the remaining areas in the building.

33. Professional expert

- 33.1. In any event of disagreement between the parties in any matter relating to the execution of the works by the Lessor and / or the works by the Lessee and / or the handing over of possession and / or the completion of repairs and / or the nature of repairs - these matters shall be brought for decision by a professional expert, as this is defined in clause 1.28 above.
- 33.2. The professional expert shall not have the authority to order a delay or suspension of the execution of works, but he shall have the right to instruct the Lessor to implement repairs and / or changes, the execution of which might delay the execution of the works.
- 33.3. In his actions as aforesaid and / or in his practice within the framework of any other or additional authority conferred on him pursuant to this Agreement, the expert shall act as a professional expert and his decision shall be final and absolute and shall be binding on the parties, as if this had been agreed between them from the outset. There shall be no appeal against his decision.

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Ceragon Networks Ltd.

- 33.4. The professional expert shall do his best to provide his decision in any matter in which his ruling has been requested, as quickly as possible after the date on which one of the parties approached him for his decision, and after he has allowed each of the parties to present their position to him - but in any event not later than fourteen (14) days from the date on which the dispute was referred to him for his ruling. The decision of the professional expert shall be made in writing and shall be explained. Notwithstanding the aforesaid, any delay in making a ruling shall not detract from the validity thereof. The parties, in agreement between themselves, are permitted to extend this date.
- 33.5. The parties undertake to cooperate with the professional expert as necessary in order to comply with the aforementioned schedule.
- 33.6. The parties shall bear the fees of the professional expert, in equal portions between them, unless this has been instructed otherwise by the professional expert.

34. Cooperation

The Parties undertake to be true and honest with each other and to assist each other by any means and manner which are likely to promote their matters in everything which is connected with the implementation of this Agreement.

35. Payment / fulfillment in the place of the other party

In the event that one of the parties is obligated to implement a particular action or a particular payment pursuant to the terms of this Agreement and / or as a result thereof (herein below: the "obligated party") and he does not perform that action and / or does not pay in accordance with the terms and conditions that are required in accordance with this Agreement and / or in accordance with any law, the party who executes that same action and / or pays that same payment (although he is not obligated to do so) in place of the party who is obligated to do so - on condition that he has given the obligated party written notification 30 days in advance to execute his obligations, and the obligated party did not fulfill this obligation during the aforementioned period of time - and if the aggrieved party undertook it, as aforesaid, then the obligated party shall be obliged to pay to the aggrieved party any amount expended by the aggrieved party in connection with the aforementioned action and / or in connection with the aforementioned payment no later than twenty (20) days after receiving the aggrieved party's demand in writing detailing his expenses (including references to substantiate his expenses - if there are such). For any amount not paid by the obligated party to the aggrieved party, as aforesaid, within the period mentioned herein above, interest shall be added in the amount of the arrears interest calculated from the date on which the aggrieved party who paid the aforesaid sum submitted his demand, until the date on which it is repaid to the aggrieved party, in full.

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36. Imputation of payments

- 36.1. If arrears interest is added in respect of any debt owed by one party to the other pursuant to this Agreement, then any payment paid by the obligated party to the other shall first be offset to settle any arrears interest that shall be added, as aforesaid, to the obligation of the aggrieved party.
- 36.2. To the extent that any amount paid by one party to another is subject, in whole or in part, to the addition of VAT and the paying party is liable to pay this pursuant to the terms of this Agreement - to be considered as a payment made by the said party to the other - including VAT, and shall be imputed to settle such part of that sum and the tax which is due for that part, which together amount to the sum paid, as aforesaid.

37. Comprehensive contract

What is written in this Agreement exclusively exhausts everything that is agreed between the parties in respect of all the issues mentioned therein, and no negotiation or agreement that preceded the signing of this Agreement shall be taken into account.

38. Silence and avoidance of action

It is hereby agreed between the parties that - unless otherwise explicitly stated in this Agreement - that in any event in which either party whatsoever does not use, or delays the exercise of its rights deriving from this Agreement or associated therewith, this fact shall not be construed as a waiver of these rights or as an admission of some kind on his part or any precedent whatsoever, either in respect of the instance when he had the opportunity to utilize that same right and regarding any case subsequent to it, and that party shall be entitled to use his rights deriving from this Agreement and / or related thereto and / or deriving from law at any that time he deems to be appropriate.

39. General

- 39.1. The Lessee hereby waives any claim of offset from the rental fee and / or any other monetary payment applicable to it pursuant to this Agreement, and / or any delay against the Lessor and anyone on behalf thereof, of any kind and type whatsoever, except for the right of offset which the Lessee has in accordance with clause 11.3.1 and clause 11.3.2 above.
- 39.2. The Courts in the Tel Aviv District shall have the exclusive jurisdiction to hear any dispute that may arise between the parties in connection with this Agreement and the Appendices thereof, except for disputes dedicated to the ruling of the professional expert, as stated in clause 33 herein above.
- 39.3. Any amendment or addition to this Agreement shall be made in writing and signed by the parties, otherwise they shall not have any binding validity.

Mifaley Tahanot Ltd.

Ceragon Networks Ltd.

40. Addresses and messages

The addresses of the parties for the purposes of this Agreement are as specified in the preamble to this Agreement, or any other address of whichever of the parties notifies to the other party, in writing, at least 10 days in advance. Any notification given by either party to the other in accordance with or pursuant to this Agreement shall be made in writing. Any notification - including Court documents - sent to the other party by courier or facsimile (except for letters from the Court) during normal business hours shall be deemed to have reached their destination with delivery to the same address, and any notification whatsoever sent to the other party by registered mail shall be deemed to have reached its destination seven (7) days from the dispatch thereof by post, as aforesaid, and all of which on condition that the delivery of the notification by any of the manners stated herein above shall be to the address according to the addresses as stated. After handing over possession of the lease, the address of the Lessee shall be in the address of the leased property.

In witness whereof the parties have hereunto affixed their signatures:

Stations Enterprises Ltd.

Ceragon Networks Ltd.

Mifalei Tahanot Ltd.

Ceragon Networks Ltd.

Confirmation of signatures

I, the undersigned, Attorney _____, confirm that on _____ Noa Landner I/D No. 050596204 and Sharon Toussia-Cohen, I/D No. 056015290, appeared before me and signed this Agreement in my presence, and that their signature - with the addition of the **Stations Enterprises Ltd.** Company stamp (herein below: the "**Company**") - obligates the Company, without restriction of sum or subject, for all intents and purposes.

Date

Attorney

I, the undersigned, Attorney _____, confirm that on _____ Ira Palti, I/D No. 054926035 and Doron Arazi I/D No. 058148107, who are known to me personally, appeared before me and signed this Agreement in my presence, and that their signature - with the addition of the **Ceragon Networks Ltd.** Company stamp (herein below: the "**Company**") - obligates the Company, without restriction of sum or subject, for all intents and purposes.

Date

Attorney

Mifaley Tahanot Ltd.

Ceragon Networks Ltd.

**AMENDMENT APPENDIX NO. 1 TO CONSTRUCTION AND TENANCY
AGREEMENT DATED APRIL 11, 2019**

Made and executed in Tel Aviv by the Lessor and the Tenant on _____, 2019

Between: **Station Enterprises Ltd**
A company registered in Israel number 520020678
By those authorized and permitted to sign on its behalf:
Mr. Sharon Toussia-Cohen, ID 056015290
and Ms. Noa Landner, ID 050596204
Of which address is 8 Granit Street, Petah Tikvah
(hereinafter: the "**Lessor**")

The party of the first part;

and: **Ceragon Networks Ltd**
A company registered in Israel number 512352444
By those authorized and permitted to sign on its behalf:
Ira Palti, ID 054926035 and Ran Vered, ID 031682743
Of which address is 24 Raul Wallenberg Street, Tel Aviv 69719
(hereinafter: the "**Tenant**")

The party of the second part;

WHEREAS On April 11, 2019, the Lessor and the Tenant signed a construction and tenancy agreement (hereinafter: the "**Tenancy Agreement**");

WHEREAS The Tenant requested the Lessor to lease additional areas in the fifth floor of the building, additional parking spaces and to make other changes to the Tenancy Agreement, as described below;

WHEREAS In accordance with the provision of Section 39.3 of the Tenancy Agreement, the parties wish to state in writing the understandings they reached as prescribed in this Appendix.

Therefore the parties agree, state and stipulate as follows:

1. The preamble to this agreement constitutes an integral part thereof.
2. The terms in this Appendix shall have the meaning ascribed to them in the Tenancy Agreement, unless stated otherwise in this Amendment Appendix.
3. These are the changes that will apply in the Tenancy Agreement and its Appendices:
 - 3.1. In the definition of the **Leasehold** in Section 1.15 of the Tenancy Agreement, the following changes are introduced:
 - 3.1.1. **In the first line, the words: "about 5,500 sq.m. (gross)" will be replaced with: "about 6,191 sq.m. (gross)".**

3.1.2. **In the third line the words:** “(at the exact location to be agreed by the parties by December 31, 2019)” **will be deleted.**

3.1.3. **In the sixth line, the words:** “and with the addition of 220 underground parking spaces (200 “float” spaces and 20 “reserved” spaces)” **will be replaced with:** “and with the addition of 240 underground parking spaces (220 “float” spaces and 20 “reserved” spaces)”.

3.1.4. The parties agree that the blueprint of the fifth floor of the building, which is attached to this Appendix and market with the **letter A**, reflects the updated Leasehold area at the fifth floor of the building.

3.2. **In the second paragraph of Section 14.1 of the Tenancy Agreement, the words:** “ILS 275,560 (“two hundred seventy five thousand five hundred sixty shekels)” **will be replaced with:** “ILS 307,200 (three hundred seven thousand two hundred shekels)”; **and the words:** “5,500 sq.m. (gross)” **will be replaced with:** “6,191 sq.m. (gross)”.

3.3. Within 14 days of executing this Addendum, the Tenant will produce to the Lessor a bank guarantee and a promissory note, as follows:

3.3.1. A bank guarantee in the amount of ILS 147,437.

3.3.2. A promissory note executed by the Lessor in the amount of ILS 589,750.

4. The Tenant's Option to Return 20 Parking Spaces

4.1. At any given time during the first year of the tenancy period, and on a “one-time” basis, the Tenant may notify the Lessor of terminating the tenancy **in regard to 20 floating parking spaces only**, with a two-month prior notice.

4.2. Should the Option be exercised, the returned parking spaces will be removed from the definition of the Leasehold for all intents and purposes and the rent will be reduced accordingly, from the day of their return. It is clarified that should the Tenant not exercise the Option during the first tenancy year as stated in Section 4.1 above, the Option will expire and the Tenant will no longer have the Option of returning the parking spaces until the end of the tenancy period.

5. Connecting the Leasehold's Floors by Internal Staircases

5.1. The parties agree that the Tenant will be permitted to connect the three floors of the Leasehold with internal staircases; that is, construct two staircases – one between the fifth and the sixth floor and the other between the sixth and the seventh floors (hereinafter: the **“Internal Staircases”**).

The following provisions will apply to the Internal Staircases works:

- 5.1.1. As part of the Tenant's works, the Tenant will make openings in the ceiling of the sixth floor and in the ceiling of the sixth floor in location agreed between the parties (hereinafter: the "**Staircase Opening**"), and the internal staircases will be connected to these openings.
- 5.1.2. The Internal Staircases works will be executed by the Tenant and at its expenses, **after receiving the Form 4 certificate for the building**, and the Tenant will be responsible for obtaining all the certificates and the permits that are required to execution, including in all that pertains to licensing, planning and execution. If the Lessor executes a temporary covering of the Staircase Openings for the purpose of obtaining Form 4, the Tenant will be responsible to open the openings at its expense.
- 5.1.3. At the end of the Tenancy Agreement, the Tenant will remove on its own and at its expense the Internal Staircases, including closing the openings according to the Lessor's instructions and a structural plan provided by the Tenant, unless the Lessor instructs the Tenant otherwise.
- 5.1.4. Without derogating from the foregoing, the execution of the Internal Staircases will be subject to all the provisions of the Tenancy Agreement concerning execution of Tenant Works in the Leasehold.

6. Installation of Antennas on the Roof of the Building

- 6.1. It is further agreed that the Tenant will be permitted to install on the roof of the building, at a location preapproved in writing by the Lessor, two antennas of up to 1.80 meter in height (hereinafter: the "**Antennas**"), in accordance with plans approved by the Lessor according to the Lessor's guidelines, with no charge payable to the Lessor.
- 6.2. The responsibility to the antennas and all the costs involved in them and all that is implied by them will apply to the Tenant only, including in connection with obtaining all the permits, licenses and approvals required for their installation, the execution of the installation works, regular upkeep, payment of all the charges involved, and also liability to any damage that may be caused to the roof of the building and/or the roof (such as sealing, etc) due to their installation and/or operation and/or dismantling, and the Lessor will cooperate reasonably with the Tenant for obtaining approvals for the installation as required, provided it does not impose any monetary expense and/or risk and/or liability it does not bear under this agreement and/or that it does not prejudice the rights of other tenants in the building and/or the project and/or the character of the building.

The Tenant undertakes to comply with all the terms and conditions and standards required for the installation and operation of the antenna, and to implement appropriate protection to prevent a risk and/or nuisance to the tenants of the building and/or the project. If the Tenant does not comply with any of these requirements, the Lessor will have the right to dismantle the antennas, at the Tenant's expense.

- 6.3. At the end of the Tenancy Agreement, the Tenant will disassemble and remove the antenna and make any repairs required due to their removal.
-

General

7. For the avoidance of doubt, the provisions of the Tenancy Agreement that were not changed expressly or implicitly in the Appendix will remain intact and apply to the parties with the requisite changes.
8. It is further clarified that where a conflict arises between the stated in the Tenancy Agreement (including its appendices and addenda) and this Appendix, the stated in this Appendix will prevail.

In witness the parties have signed

Station enterprises Ltd

Ceragon Networks Ltd

Signature Verification

I the undersigned, _____, Adv, hereby confirms that on _____, Ms. Noa Landner, ID 050596204 and Mr. Sharon Toussia-Cohen, ID 056015290 appeared before me and signed before me on this Agreement and that their signatures together with the seal of Station Enterprises Ltd (hereinafter: the "**Company**") bind the Company for all intents and purposes without limit of amount or matter.

Date

_____, Adv.

I the undersigned, _____, Adv, hereby confirms that on _____, Mr. Ira Palti, ID 054926035 and Mr. Ran Vered, ID 031682743, who are known to me personally, appeared before me and signed before me on this Agreement and that their signatures together with the seal of Ceragon Networks Ltd (hereinafter: the "**Company**") bind the Company for all intents and purposes without limit of amount or matter.

Date

_____, Adv.

Addendum to Lease Agreement Dated 10 March 2002
Made and signed in Tel Aviv on the ___ day of May, 2019

Between:

1. Migdal Insurance Company Ltd. – company 52-000489-6
2. Zisapel Properties (1992) Ltd. – private company 51-174168-8
3. Klil and Michael Properties (1992) Ltd. – private company 51-174159-7
4. Migdal Makefet Pension Funds and Provident Funds Ltd. – private company 51-223774-4
(hereinafter: "the Lessor")

And:

Ceragon Networks Ltd., private company 512352444
Of 24 Raoul Wallenberg Street, Tel Aviv
(hereinafter: "the Lessee")

Of the first part;

Of the second part;

Whereas The parties, the Lessor (and for purposes of this Addendum, including the Lessor 4 individuals, to which rights from a Lessor 1 individual have been transferred, pertaining, *inter alia*, to the Property), of the first part, and the Lessee, of the second part, made and signed, as the case may be, a lease agreement and/or an agreement on extension of the lease agreement dated 8 April 2018 (hereinafter: "**the Update Agreement**") and/or appendices and/or addendums to the lease agreement (hereinafter, the lease agreement, the Update Agreement and the appendices to the lease agreement, jointly: "**the Lease Agreement**", unless otherwise specified), in connection with the Storage Room, as such term is defined in the Update Agreement (hereinafter: "**the Storage Room**"; "**the Property**"), without derogating from an additional lease agreement signed by the individuals of Lessor 2 and 3 and the Lessee on 26 May 2013 (hereinafter: "**the 2013 Agreement**");

And whereas The parties wish to make changes in relation to to the Lease Agreement according to and as defined in this Addendum, as well as to determine and define their legal relations, according to this Addendum and in relation to the Storage Room only;

Therefore, it has been declared, conditioned and agreed by the parties as follows:

1. Recitals and Appendices

- 1.1 The recitals of this Addendum constitute an integral part thereof and are as binding as its other provisions.
 - 1.2 All terms and expressions appearing in this Addendum shall have the meaning as given thereto by the Lease Agreement, unless otherwise explicitly specified.
 - 1.3 Section captions are intended for orientation and convenience only and will not be used for interpretation of this Addendum.
 - 1.4 For removal of doubt, it is clarified, declared and agreed that to the extent any of the Lease Agreement provisions have not been explicitly modified, its provisions will apply fully also in relation to the provisions of this Addendum and its provisions will bind the parties for all intents and purposes.
-

2. Lease Periods and/or Shortening Thereof

It is agreed by the parties that notwithstanding the provisions of the Update Agreement, the following provisions will apply:

- 2.1 The lease term for the Property, which is due to end on 31/12/2019, will be extended so that it ends on 31/12/2020 (hereinafter: "**the New Lease Period**").
- 2.2 The monthly rent during the New Lease Period will be NIS 30 per sq.m., gross, of the Storage Room, excluding VAT, linked to the consumer price index of April 2016 (hereinafter: "**the Basic Index**"), that is, an amount of NIS 390, excluding VAT, per month, as a fixed and absolute amount during the New Lease Period, linked to the Basic Index (hereinafter: "**the Rent During the New Lease Period**"). The rent will be paid to the Lessor in advance once every quarter (in addition to and along with the rent paid by the Lessee to each of the Lessor individuals).
- 2.3 For removal of doubt, is clarified that the distribution of the Rent During the New Lease Period between the Lessor individuals will be according to the provisions of the Lease Agreement.

3. General

- 3.1 No provisions among the conditions and provisions included in this Addendum, including its appendices, is intended to derogate from any other condition or provision of the Lease Agreement and/or the Update Agreement, but rather to add thereupon.
- 3.2 There shall be no effect to any modification and/or waiver and/or deviation from the provisions of this Addendum unless done in writing and signed by the parties to this Addendum, as the case may be.
- 3.3 The parties' addresses for purposes of this Addendum are as specified in the recitals of this Addendum and any notice sent by one party to another by registered mail according to the aforesaid addresses, unless a party notifies another party of change thereof, will be considered as having reached its destination and the knowledge of the addressee party within 72 hours after its delivery for dispatch at the post office, and in case of hand delivery, at the time of delivery. Any notice deposited at the Property, as well as any notice sent by the facsimile machine, will be considered as having reached its destination within 24 hours from the time of deposit or transmission.

In witness whereof the parties have signed:

| | |
|---|--|
| Migdal Insurance Company Ltd. – company 52-000489-6 | [Signatures + Stamp: Migdal Insurance Company Ltd.; Migdal Makefet Pension Funds and Provident Funds Ltd.] |
| Zisapel Properties (1992) Ltd. – private company 51-174168-8 | |
| Klil and Michael Properties (1992) Ltd. – private company 51-174159-7 | |
| Migdal Makefet Pension Funds and Provident Funds Ltd. – private company 51-223774-4 | |
| Ceragon Networks Ltd., private company 512352444 | [Signature + Stamp: Ira Palti, President & CEO, Ceragon Networks Ltd.] |

List of Significant Subsidiaries

| Company | Place of Incorporation |
|--|------------------------|
| Ceragon Networks, Inc. | New Jersey |
| Ceragon Networks (India) Private Limited | India |

CERTIFICATION

I, Ira Palti, certify that:

1. I have reviewed this annual report on Form 20-F of Ceragon Networks Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 8, 2021

CERAGON NETWORKS LTD.

By: /s/ Ira Palti

Name: Ira Palti

Title: President and Chief Executive Officer

CERTIFICATION

I, Ran Vered, certify that:

1. I have reviewed this annual report on Form 20-F of Ceragon Networks Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 8, 2021

CERAGON NETWORKS LTD.

By: /s/ Ran Vered

Name: Ran Vered

Title: Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F of Ceragon Networks Ltd. (the "Company") for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 8, 2021

By: /s/ Ira Palti

Name: Ira Palti
Title: President and Chief Executive Officer

By: /s/ Ran Vered

Name: Ran Vered
Title: Chief Financial Officer

A signed copy of this written statement required by Section 906 has been provided to Ceragon Networks Ltd. and will be retained by Ceragon Networks Ltd. and furnished to the Securities and Exchange Commission or its staff upon request.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form F-3 No. 333-217194) of Ceragon Networks Ltd. and in the related Prospectus and in the Registration Statement (Form S-8 No. 333-117849, 333-136633, 333-158983, 333-164064, 333-173480, 333-187953, 333-204090, 333-231529 and 333-237509) of our reports dated March 8, 2021, with respect to the consolidated financial statements of Ceragon Networks Ltd. and the effectiveness of internal control over financial reporting of Ceragon Networks Ltd. included in this Annual Report (Form 20-F) for the year ended December 31, 2020.

Tel-Aviv
March 8, 2021

/s/ KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of EY Global

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form F-3 No. 333-217194) and related Prospectus and in the Registration Statement (Form S-8 333-117849, 333-136633, 333-158983, 333-164064, 333-173480, 333-187953, 333-204090, 333-231529 and 333-237509) of Ceragon Networks Ltd. of our report dated March 31, 2019, with respect to the consolidated financial statements of Ceragon America Latina Ltda. and the effectiveness of internal control over financial reporting of Ceragon America Latina Ltda. included in its Annual Report (Form 20-F) for the year ended December 31, 2018.

Sao Paulo,
March 8, 2021

/s/ Mazars Auditores Independentes S.S.
