

Adtran Networks (UK) Limited

Annual Report and Financial Statements

For the Year Ended 31 December 2023



Adtran Networks (UK) Limited

Company Information

Directors Ulrich Maximilian Dopfer
Maurice Baarslag (resigned 15 January 2024)
Kristen Louise Clovis
Anja Karina Schoeck (appointed 15 January 2024)

Company secretary Ian Blackburn

Registered number 03593238

Registered office Advantage House
Tribune Way
Clifton Moor
York
North Yorkshire
YO30 4RY

Independent auditor Dains Audit Limited
2 Chamberlain Square
Paradise Circus
Birmingham
B3 3AX

Bankers Deutsche Bank AG
99 Bishopsgate
London
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Adtran Networks (UK) Limited

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Adtran Networks (UK) Limited

Strategic Report For the Year Ended 31 December 2023

Introduction

The directors present their Strategic report of the Company for the year ended 31 December 2023.

Results and dividends

Adtran Networks (UK) Limited ("the Company") achieved a profit before taxation of £1.7 million in 2023 (2022: £2.6 million). During the year £2 million of dividends were paid (2022: £nil).

Principal activities and review of the business

The Company's key performance indicators (KPI's) during the year were as follows:

Products

Adtran Networks (UK) Limited assembles, markets and sells Optical and Ethernet networking solutions for a modern telecommunication infrastructure. Its products are based on three core areas of expertise: fibre-optic transmission technology, Ethernet-based packet networking with intelligent software for virtualisation and network management, and solutions for precise timing and synchronization of networks.

Procurement

For the production of our products, Adtran Networks (UK) Limited relies predominantly on Adtran Networks SE (the parent company), which manufactures products at its facility in Germany as well as at contract manufacturers.

Business Development and operational performance

Revenues decreased from £95.3 million to £74.9 million in 2023, gross profit decreased to £9.4 million (12.6% of revenues) from the £10.2 million (10.7% of revenues) seen in 2022. Finally, administrative expenses increased from £7.5 million in 2022 to £8.1 million in 2023.

Employees

As at 31 December 2023, the Company had a total of 121 employees (2022: 124 employees). Personnel expenses increased from £9.9 million to £10.1 million, representing 13.5% of total revenues (2022: 10.4% of total revenues). Our employee compensation package is comprised of fixed and variable components as well as stock options providing employees the possibility to acquire shares in our parent company. Furthermore, we offer extensive training opportunities to all our employees in order to support both their personal and professional development.

Adtran Networks (UK) Limited**Strategic Report (continued)
For the Year Ended 31 December 2023****Principal activities and review of the business (continued)****Net Assets and financial position**

Total net assets decreased slightly from £16.5 million to £15.8 million. Thereof, cash and cash equivalents decreased by £4.6 million, trade and other receivables decreased by £1.3 million, inventories decreased by £4.1 million, creditors decreased by £8 million and current lease obligations increased by £0.1 million.

	2023	2022	
	£ million	£ million	Change %
Revenue (£m)	74.9	95.3	(21)
Gross profit (£m)	9.4	10.2	(8)
Profit for financial year (£m)	1.2	2.0	(40)
Net assets	15.9	16.5	(4)
Current assets as % of current liabilities (%)	237%	179%	(33)
Average number of employees at year end (No)	121	124	(2)

Directors' statement of compliance with duty to promote the success of the Company

A director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to the following matters:

a) the likely consequence of any decision in the long term

The company aligns its strategic goals with that of the Adtran group which are focused around growth and profitability, innovation, operational excellence and individual development of the employees. These strategic goals are reviewed on a yearly basis and amended where appropriate. Each of these goals are defined in detail and then broken down into specific departmental and individual targets.

b) the interests of the company's employees

Individual development of the employees being one of the strategic goals of the company is reflected in the compensation packages which enable our employees to participate appropriately in the success of the company, they support employee retention, while at the same time rewarding individual efforts, teamwork, innovation and productivity. Furthermore, employees who perform exceptionally well, or who make suggestions for significant improvements are recognised through the company's spot award program. In addition, the company is committed to offering all employees comprehensive on-the-job training, as well as specific continuing education opportunities in order to advance their personal and professional development. The company offers different types of continuing education programs through the Adtran university, based on employee development needs. Adtran is committed to the creation of a workplace free of discrimination and harassment. The company recruits, hires, trains and promotes individuals on all job levels without regard to race, religion, ancestry, sexual orientation, marital status, national origin, age, gender and physical or mental disability.

c) the need to foster the company's business relationships with suppliers, customers and others

The company works in close collaboration with key suppliers during the development of critical components. Structured and tool-based processes for supplier and manufacturer identification and qualification, robust contracting including adequate indemnifications, and regular audits are in place for key suppliers and all manufacturers. The company's employees and management regularly have discussions with key customers and industry thought leaders in order to identify new opportunities and technological trends.

Adtran Networks (UK) Limited

**Strategic Report (continued)
For the Year Ended 31 December 2023**

Directors' statement of compliance with duty to promote the success of the Company (continued)

d) the impact of the company's operations on the community and the environment

The company aligns its environmental and social goals with that of the Adtran group which maintain a sustainability program based on a holistic model covering the range of all related aspects. Adtran's corporate sustainability report is referred for more information.

e) the desirability of the company maintaining a reputation for high standards of business conduct

As the Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours and in doing so, will contribute to the delivery of Adtran's strategic goals.

f) the need to act fairly between members of the company

The company's core values (teamwork, excellence, accountability and motivation) and leadership principles (integrity, honesty, decisiveness and respect) guide employees and managers in all business activities. Adtran is committed to a fair and equitable workplace where everyone is a respected and valued member of the team.

Principal risks and uncertainties

The Company distributes technologically demanding products for use in optical networks. The Company thus operates in a highly competitive market which requires constant anticipation of an adaptation to future market demands. Risks arise through changing customer requirements, increased pricing and margin pressure from competitors, incorrect estimates about the development of new technologies and products, or insufficient protection of intellectual property and technology innovations from competitors. Risks on the procurement side centre on shortages at individual suppliers and potential further consolidation within the industry. To eliminate bottlenecks, the parent company attempts to procure each component from at least two suppliers. At present the directors see the currency and credit risks neither as threatening the ongoing existence of the Company nor as being higher than average.

The Company is part of the Adtran group of companies and a 100% owned subsidiary of Adtran Networks SE in Germany, and as such the Company aligns its risk management with that of the parent company. The directors of the Company are part of the global Adtran management team. In order to ensure appropriate risk management, the Adtran global management team continuously analyses the potential risks and implements the necessary measures to guard against them to the greatest extent possible. In recent years, high investments in the further optimisation of processes at the Adtran group have established a solid foundation for a results-driven controlling and reporting system within the group. A risk management system has been established across all departments with the purpose of quickly uncovering potential risks and establishing controls in a timely manner.

These measures allow the group and hence the Company to evaluate Adtran Networks (UK) Limited's present and future situation at all times. A combination of monthly and ad-hoc reports present a thorough picture of current and future business developments.

Competitive risks

The Company is for a large part dependent on a single customer and relies to a significant extent on contract manufacturing services from a limited number of providers of such services. A consolidation among the Company's component suppliers or negative developments in the businesses of the Company's component suppliers and contract manufacturers affecting their ability to supply the Company could adversely impact the availability of components and products on which Adtran Networks (UK) Limited depends.

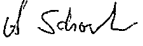
Adtran Networks (UK) Limited

**Strategic Report (continued)
For the Year Ended 31 December 2023**

Outlook

The future positive development of our Company centers primarily on our ability to innovate, on the success of new features and products in the market and on the further growth of our business. Overall, we are expecting to remain stable and to keep revenues at a similar level as in 2023.

This report was approved by the board on 18 December 2024 and signed on its behalf.

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Anja Karina Schoeck
Director

Adtran Networks (UK) Limited

Directors' Report For the Year Ended 31 December 2023

The directors present their report and the financial statements for the year ended 31 December 2023.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Results, future developments and dividends

The profit for the year, after taxation, amounted to £1.2 million (2022 - £2.0 million).

Likely future developments in the business of the Company and details of dividends paid and recommended activities are included within the Strategic Report.

A dividend of £2.0 million was paid during the year (2022 - £Nil).

Directors

The directors who served during the year and subsequently were:

Ulrich Maximilian Dopfer
Maurice Baarslag (resigned 15 January 2024)
Kristen Louise Clovis
Anja Karina Schoeck (appointed on 15 January 2024)

Adtran Networks (UK) Limited

Directors' Report (continued) For the Year Ended 31 December 2023

Financial risk management

Credit risks

At present, no significant credit risks are identified as the Company actively monitors any overdue debtor balances on a weekly basis.

Currency risks

The Company's revenues are predominantly in British Pounds, whereas a large part of the purchases is in USD. No significant measures are taken to hedge currency fluctuations, as hedging is performed at parent company level.

Engagement with suppliers, customers and others

Section 172 of the Companies Act 2006 is referred to for further information and the Company's engagement with supplier, customers and others, and the effect of that on the Company.

Directors' qualifying third party indemnity provisions

The Company has in its articles reserved the right to grant its directors an indemnity against liability in respect of any proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. The Company has put in place a directors and officers liability insurance to cover itself for this liability. This insurance was in place during the year and up to the date of signing of the financial statements.

Statement of corporate governance arrangements

Integrity and ethical decision-making are central to the sustained success of Adtran Networks (UK) Limited. The Company is committed to its responsibility to comply with national and international laws and regulations, internal policies and ethical standards ("Compliance"). The Company and corporate management, being part of a group headquartered in Germany, adheres in particular to German stock corporation and capital market law, our articles of association and the German Corporate Governance Code, which is implemented in a company-specific manner.

Adtran has established a comprehensive compliance management system to ensure compliance with laws and regulations, internal policies and ethical standards. The commitment to compliance is supported by the board and communicated accordingly. It is based on Adtran's value system, the so-called "core values". These result in a holistic code of conduct and a set of group-wide guidelines that regulate operational processes. Compliance with these standards is mandatory for all employees.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

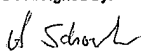
Adtran Networks (UK) Limited

**Directors' Report (continued)
For the Year Ended 31 December 2023**

Post balance sheet events

There have been no significant events affecting the Company since the year end.

This report was approved by the board on 18 December 2024 and signed on its behalf.

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Anja Karina Schoeck
Director

Adtran Networks (UK) Limited

Independent Auditor's Report to the Members of Adtran Networks (UK) Limited

Opinion

We have audited the financial statements of Adtran Networks (UK) Limited (the 'Company') for the year ended 31 December 2023, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Adtran Networks (UK) Limited

Independent Auditor's Report to the Members of Adtran Networks (UK) Limited (continued)

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our Auditor's Report thereon. The directors are responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Adtran Networks (UK) Limited

Independent Auditor's Report to the Members of Adtran Networks (UK) Limited (continued)

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, was as follows:

- the senior statutory auditor ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the company through discussions with directors and other management, and from our commercial knowledge and experience of the sector;
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the company, including the financial reporting legislation, Companies Act 2006, taxation legislation, anti-bribery, employment, and environmental and health and safety legislation;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of the company's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

Adtran Networks (UK) Limited

Independent Auditor's Report to the Members of Adtran Networks (UK) Limited (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;
- assessed whether judgements and assumptions made in determining the accounting estimates set out in Note 3 were indicative of potential bias; and
- investigated the rationale behind significant or unusual transactions.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:


- agreeing financial statement disclosures to underlying supporting documentation;
- reading the minutes of meetings of those charged with governance;
- enquiring of management as to actual and potential litigation and claims; and
- reviewing correspondence with HMRC, relevant regulators and the company's legal advisors.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



John Coates BSc BFP FCA (Senior Statutory Auditor)

for and on behalf of

Dains Audit Limited

Statutory Auditor
Chartered Accountants

Birmingham

19 December 2024

Adtran Networks (UK) Limited

Statement of Comprehensive Income
For the Year Ended 31 December 2023

	Note	2023 £000	2022 £000
Turnover	4	74,876	95,252
Cost of sales		(65,472)	(85,046)
Gross profit		9,404	10,206
Administrative expenses		(8,065)	(7,496)
Other operating income	5	458	103
Operating profit	6	1,797	2,813
Interest payable and similar charges	10	(94)	(300)
Interest receivable and similar income		3	40
Profit before tax		1,706	2,553
Tax on profit	11	(510)	(545)
Profit for the financial year		1,196	2,008
Total comprehensive income from continuing operations for the year		1,196	2,008

The notes on pages 17 to 42 form part of these financial statements.

The above results relate solely to continuing operations.

Adtran Networks (UK) Limited
Registered number:03593238

Statement of Financial Position
As at 31 December 2023

	Note	2023 £000	2022 £000
Fixed assets			
Intangible assets	13	-	438
Tangible assets	14	3,396	2,341
		<u>3,396</u>	<u>2,779</u>
Current assets			
Stocks	16	8,793	12,902
Debtors: amounts falling due within one year	17	12,279	13,586
Cash at bank and in hand	18	6,566	11,196
		<u>27,638</u>	<u>37,684</u>
Creditors: amounts falling due within one year	19	(11,647)	(21,096)
		<u>15,991</u>	<u>16,588</u>
Net current assets		<u>15,991</u>	<u>16,588</u>
Total assets less current liabilities		<u>19,387</u>	<u>19,367</u>
Creditors: amounts falling due after more than one year	20	(3,506)	(2,833)
Provisions for liabilities			
Other provisions		(31)	(32)
		<u>15,850</u>	<u>16,502</u>
Net assets		<u>15,850</u>	<u>16,502</u>
Capital and reserves			
Called up share capital	24	137	137
Share premium account	25	4,634	4,634
Capital redemption reserve	25	1,724	1,724
Other reserves	25	1,379	1,227
Profit and loss account	25	7,976	8,780
		<u>15,850</u>	<u>16,502</u>
Total shareholders' funds		<u>15,850</u>	<u>16,502</u>


Adtran Networks (UK) Limited

Registered number:03593238

Statement of Financial Position (continued)

As at 31 December 2023

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 18 December 2024.

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Anja Karina Schoeck

Director

The notes on pages 17 to 42 form part of these financial statements.

Adtran Networks (UK) Limited

Statement of Changes in Equity
For the Year Ended 31 December 2023

	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Share option reserve £000	Profit and loss account £000	Total equity £000
At 1 January 2023	137	4,634	1,724	1,227	8,780	16,502
Comprehensive income for the year						
Profit for the year	-	-	-	-	1,196	1,196
Total comprehensive income for the year	-	-	-	-	1,196	1,196
Contributions by and distributions to owners						
Dividends: Equity capital	-	-	-	-	(2,000)	(2,000)
Share-based payment	-	-	-	152	-	152
Total transactions with owners	-	-	-	152	(2,000)	(1,848)
At 31 December 2023	137	4,634	1,724	1,379	7,976	15,850

The notes on pages 17 to 42 form part of these financial statements.

Adtran Networks (UK) Limited

Statement of Changes in Equity
For the Year Ended 31 December 2022

	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Share option reserve £000	Profit and loss account £000	Total equity £000
At 1 January 2022	137	4,634	1,724	1,147	6,772	14,414
Comprehensive income for the year						
Profit for the year	-	-	-	-	2,008	2,008
Total comprehensive income for the year	-	-	-	-	2,008	2,008
Contributions by and distributions to owners						
Share-based payment	-	-	-	80	-	80
Total transactions with owners	-	-	-	80	-	80
At 31 December 2022	137	4,634	1,724	1,227	8,780	16,502

The notes on pages 17 to 42 form part of these financial statements.

Adtran Networks (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

1. General information

Adtran Networks (UK) Limited (previously known as ADVA Optical Networking Limited) is a private company limited by shares, incorporated and domiciled in the United Kingdom. The address of the registered office is Advantage House, Tribune Way, Clifton Moor, York, North Yorkshire, YO30 4RY.

The principal activities of the company are to sell, install and provide maintenance service and to carry on the business of promotion, sales, marketing and support of Optical Networking WDM and Ethernet Transport Solutions.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial Reporting Standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

This information is included in the consolidated financial statements of Adtran Networks SE as at 31 December 2023 and these financial statements may be obtained from Fraunhoferstraße 9a, Martinsried/Munich, D-82152, Germany.

Adtran Networks (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

2. Accounting policies (continued)

2.3 Going concern

The Company meets its day-to-day working capital requirements through its cash reserves. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Additionally, the going concern basis is supported by a letter of comfort from the sole shareholder Adtran Networks SE, Germany.

2.4 Impact of new international reporting standards, amendments and interpretations

There are no new amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2023 that have had a material impact on the company's financial statements

2.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

The Company has contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company adjusts the transaction prices of these contracts for the time value of money.

Sale of goods

Revenue from the sale of goods is recognised on the satisfaction of performance obligations, such as the transfer of a promised good, identified in the contract between the Company and the customer. Software licences are either sold together with the hardware or sold separately. Control in case of software is transferred when the customer is able to use the software.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Rendering of services

Revenue arising from the sale of services primarily derives from installation services, maintenance and training and is recognised when those services have been rendered. In case of service level agreements or maintenance contracts as well as period-related software licences revenue is recognised over a period of time provided that further services are to be rendered during the term of the contracts. The customer receives and uses all services at the same time as they are provided to the company.

2.6 Lease accounting IFRS 16

The Company as a lessee

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less)

Adtran Networks (UK) Limited**Notes to the Financial Statements
For the Year Ended 31 December 2023**

2. Accounting policies (continued)**2.6 Lease accounting IFRS 16 (continued)**

and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Company leases various properties and cars. Rental contracts are typically made for fixed periods of 3 to 5 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease arrangements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is included in 'Creditors' on the Statement of Financial Position.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are included in the 'Intangible Assets', 'Tangible Fixed Assets' and 'Investment Property' lines, as applicable, in the Statement of Financial Position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in note 2.13.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has used this practical expedient.

Adtran Networks (UK) Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

2. Accounting policies (continued)

2.7 Research and development

Research costs are expensed in the period in which they are incurred. Development expenses for new products are capitalised as development projects if:

- they can be unambiguously assigned to those products;
- the products under development are technically feasible and can be marketed; and
- there is reasonable certainty that the development activity will result in future cash inflows.

Capitalised development projects include costs that can be directly assigned to the development process, including borrowing costs. After initial recognition of capitalised development projects as an asset, measurement is at historical cost, less accumulated amortisation and impairment. The straight-line method of amortisation is used from the start of production through the estimated selling periods for the products developed (generally between three and five years). Finished as well as unfinished development projects are tested for impairment on the balance sheet date and at other defined dates in the product life cycle.

2.8 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

Adtran Networks (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

2. Accounting policies (continued)

2.9 Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with fair value of goods and services received.

2.10 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the reporting date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Adtran Networks (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

2. Accounting policies (continued)

2.11 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income'.

2.12 Intangible assets

Patents and licences are stated at cost less accumulated amortisation. Amortisation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life.

The estimated useful lives range as follows:

Patents	-	2-5 years
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Amortisation is included within administrative expenses.

The carrying value of positive goodwill is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Adtran Networks (UK) Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

2. Accounting policies (continued)

2.13 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the original purchase price and the costs attributable to bringing the asset to its working condition per its intended use. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Leasehold improvements	- 4 - 15 years
Technical equipment and machinery	- 4 - 8 years
Factory and office equipment	- 3 - 10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.14 Valuation of investments

Shares in affiliated companies and investments are recognised at the cost of acquisition including transaction costs less impairment charges.

2.15 Inventories

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.16 Debtors

Short-term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Adtran Networks (UK) Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

2. Accounting policies (continued)

2.17 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.18 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Provisions for liabilities

Provisions are recognised when an event has taken place that gives rise to a legal or constructive obligation, a transfer of economic benefits is probable and a reliable estimate can be made.

Provisions are measured as the best estimate of the amount required to settle the obligation, taking into account the related risks and uncertainties.

Increases in provisions are generally charged as an expense to profit or loss.

2.20 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets and financial liabilities are initially measured at fair value.

Financial assets

All recognised financial assets are subsequently measured in their entirety at either fair value or amortised cost, depending on the classification of the financial assets.

Fair value through profit or loss

All of the Company's financial assets are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses being recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

Adtran Networks (UK) Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

2. Accounting policies (continued)

2.20 Financial instruments (continued)

Financial liabilities

Fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss, when the financial liability is held for trading, or is designated as at fair value through profit or loss. This designation may be made if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or the financial liability forms part of a group of financial instruments which is managed and its performance is evaluated on a fair value basis, or the financial liability forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at fair value through profit or loss. Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

2.21 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

Adtran Networks (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 14 for the carrying amount of the property, plant and equipment, and accounting policy note 2.13 for the useful economic lives for each class of asset.

(b) Inventory provisioning

The Company manufactures and sells optical and Ethernet-based networking solutions for telecommunication carriers and enterprises to deliver data, storage, voice and video services. As a result, it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of the finished goods. See note 16 for the net carrying amount of the inventory and associated provision.

(c) Impairment of trade receivables

The new impairment model changes the calculation of impairment from an incurred loss model to an expected credit loss model. Adtran Networks (UK) Limited calculates the impairment on trade receivables that are accounted for at amortised cost according to IFRS 9 based on the simplified approach on the basis of a provision matrix.

Adtran Networks (UK) Limited**Notes to the Financial Statements
For the Year Ended 31 December 2023****4. Revenue**

An analysis of turnover by class of business is as follows:

	2023	2022
	£000	£000
Sale of goods	66,108	85,038
Rendering of services	8,768	10,214
	74,876	95,252

Analysis of turnover by country of destination:

	2023	2022
	£000	£000
United Kingdom	74,876	95,123
Rest of Europe	-	129
	74,876	95,252

Revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the year end is summarised as follows:

	2023	2022
	£000	£000
Current Contract Liabilities	984	1,001
Non-Current Contract Liabilities	1,471	1,878
	2,455	2,879

Contract liabilities for expected service contracts have decreased by £164,000 (2022: increased by £337,000).

Revenue recognised in the current reporting period which relates to carried-forward contract liabilities amounts to £2,798,433 (2022: £2,800,944).

Adtran Networks (UK) Limited**Notes to the Financial Statements
For the Year Ended 31 December 2023****5. Other operating income**

	2023	2022
	£000	£000
Foreign currency exchange gains	458	103
	458	103

6. Operating profit

The operating profit is stated after charging:

	2023	2022
	£000	£000
Research & development income	(389)	(41)
Depreciation on property, plant and equipment	511	576
Depreciation of right-of-use assets	385	358
Impairment of intangible assets	437	-
Amortisation of intangible assets	1	8
Operating lease charges	87	61
Defined contribution pension cost	498	511
Inventory costs including scrapping, stock taking adjustment and reserve	1,072	1,347

7. Auditor's remuneration

During the year, the Company obtained the following services from the Company's auditor and its associates:

	2023	2022
	£000	£000
Fees payable to the Company's auditor for the audit of the Company's financial statements	35	32
Fees payable to the Company's auditor in respect of:		
Other related services	2	2

Adtran Networks (UK) Limited**Notes to the Financial Statements
For the Year Ended 31 December 2023****8. Employees**

Staff costs, including directors' remuneration, were as follows:

	2023	2022
	£000	£000
Wages and salaries	8,670	8,263
Social security costs	1,096	1,122
Cost of defined contribution scheme	498	511
Share-based payments charge (note 26)	152	80
	10,416	9,976

The average monthly number of employees, including the directors, during the year was as follows:

	2023	2022
	No.	No.
Production	60	62
Sales and administration	57	57
Research and development	4	5
	121	124

9. Directors' remuneration

	2023	2022
	£000	£000
Directors' emoluments	11	11
	11	11

£5.1k (2022: £5.3k) is payable by the company and £5.3k (2022: £5.3k) is payable by the immediate controlling party Adtran Networks SE, incorporated in Germany (total amount of £5.3k for different affiliate companies).

During the year retirement benefits were accruing to 1 director (2022: 1) in respect of defined contribution pension schemes.

Adtran Networks (UK) Limited

Notes to the Financial Statements
For the Year Ended 31 December 2023

10. Interest payable and other similar charges

	2023	2022
	£000	£000
Other loan interest payable	94	300

11. Taxation

	2023	2022
	£000	£000
Corporation tax		
Current tax on profits for the year	528	511
Adjustments in respect of previous periods	(25)	34
Total current tax charge	503	545
Deferred tax		
Origination and reversal of timing differences	7	-
Total deferred tax charge	7	-
Tax charge on profit	510	545

Adtran Networks (UK) Limited

Notes to the Financial Statements
For the Year Ended 31 December 2023

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2022 - higher than) the standard rate of corporation tax in the UK of 23.52% (2022 - 19%). The differences are explained below:

	2023 £000	2022 £000
Profit on ordinary activities before tax	1,706	2,553
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.52% (2022 - 19%)	504	485
Effects of:		
Expenses not deductible for tax purposes	6	60
Total tax charge for the year	510	545

Factors that may affect future tax charges

In the Spring Budget 2021, the government announced that from 1 April 2023 the headline corporation tax rate will increase to 25%. The proposal to increase the rate to 25% had been substantially enacted at the company's balance sheet date, therefore it's effects have been included in these financial statements.

12. Dividends

	2023 £000	2022 £000
Dividends paid at 146p per share (2022: nil per share)	2,000	-
	2,000	-

Adtran Networks (UK) Limited

Notes to the Financial Statements
For the Year Ended 31 December 2023

13. Intangible assets

	Patents £000	Goodwill £000	Total £000
Cost			
At 1 January 2023	1,383	437	1,820
At 31 December 2023	<u>1,383</u>	<u>437</u>	<u>1,820</u>
Amortisation			
At 1 January 2023	1,382	-	1,382
Charge for the year on owned assets	1	-	1
Impairment charge	-	437	437
At 31 December 2023	<u>1,383</u>	<u>437</u>	<u>1,820</u>
Net book value			
At 31 December 2023	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2022	<u>1</u>	<u>437</u>	<u>438</u>

The directors have determined that the carrying value of goodwill should be fully impaired as it is no longer expected to bring any benefit or results that had been expected to be adhered at the time of its initial recognition.

Adtran Networks (UK) Limited

Notes to the Financial Statements
For the Year Ended 31 December 2023

14. Tangible fixed assets

	Leasehold improve- ments £000	Leasehold property (right-of- use asset) £000	Motor vehicles (right-of- use asset) £000	Factory and office equipment £000	Technical equipment and machinery £000	AUC £000	Total £000
Cost or valuation							
At 1 January 2023	571	1,707	96	754	3,117	-	6,245
Additions	6	1,356	179	110	221	136	2,008
Disposals	-	(336)	-	-	(43)	-	(379)
At 31 December 2023	577	2,727	275	864	3,295	136	7,874
Depreciation							
At 1 January 2023	377	538	53	576	2,360	-	3,904
Charge for the year on owned assets	52	-	-	94	394	-	540
Charge for the year on right-of-use assets	-	353	32	-	-	-	385
Disposals	-	(308)	-	-	(43)	-	(351)
At 31 December 2023	429	583	85	670	2,711	-	4,478
Net book value							
At 31 December 2023	148	2,144	190	194	584	136	3,396
At 31 December 2022	194	1,169	43	178	757	-	2,341

The net book value of land and buildings may be further analysed as follows:

	2023 £000	2022 £000
Freehold	148	194
Long leasehold	2,144	1,168
	2,292	1,362

Adtran Networks (UK) Limited**Notes to the Financial Statements
For the Year Ended 31 December 2023****15. Fixed asset investments**

The company holds a 1% share of the investment in group company ADVA Optical Networking Serviços Ltda., Sao Paulo, Brasil, representing USD 250 (£167).

The directors believe that the carrying value of the investment is supported by their underlying net assets.

16. Inventories

	2023	2022
	£000	£000
Work in progress	36	20
Finished goods and goods for resale	8,757	12,882
	<u>8,793</u>	<u>12,902</u>

The difference between purchase price and production cost of stock and their replacement cost is not material. The inventory reserve at the year-end amounted to £1,114,182 (2022: £1,114,000).

17. Debtors

	2023	2022
	£000	£000
Trade debtors	7,098	11,555
Amounts owed by group undertakings	3,578	254
Other debtors	1,089	1,373
Prepayments and accrued income	312	303
Tax recoverable	192	94
Deferred taxation	10	7
	<u>12,279</u>	<u>13,586</u>

Amounts due by group undertakings are unsecured, interest free and are repayable on demand.

Adtran Networks (UK) Limited**Notes to the Financial Statements
For the Year Ended 31 December 2023****18. Cash and cash equivalents**

	2023	2022
	£000	£000
Cash at bank and in hand	6,566	11,196
	<u>6,566</u>	<u>11,196</u>

19. Creditors: Amounts falling due within one year

	2023	2022
	£000	£000
Trade creditors	562	1,045
Amounts owed to group undertakings	5,457	12,044
Corporation tax	-	25
Other taxation and social security	2,470	4,102
Lease liabilities	419	326
Other creditors	1,102	1,234
Accruals and deferred income	1,637	2,320
	<u>11,647</u>	<u>21,096</u>

Amounts due to group undertakings are unsecured, interest free and are repayable on demand.

20. Creditors: Amounts falling due after more than one year

	2023	2022
	£000	£000
Lease liabilities	2,014	956
Other creditors	17	176
Accruals and deferred income	1,475	1,701
	<u>3,506</u>	<u>2,833</u>

Adtran Networks (UK) Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

21. Leases

Company as a lessee

Future minimum lease payments are due as follows:

	2023	2022
	£000	£000
Within one year	359	313
Between 1-5 years	2,073	933
	<u>2,432</u>	<u>1,246</u>
	<u>2,432</u>	<u>1,246</u>

The following amounts in respect of leases, where the Company is a lessee, have been recognised in profit or loss:

	2023	2022
	£000	£000
Interest expense on lease liabilities	94	60
	<u>94</u>	<u>60</u>
	<u>94</u>	<u>60</u>

22. Deferred taxation

	2023	2022
	£000	£000
At beginning of year	10	7
At end of year	<u>10</u>	<u>7</u>
	<u>10</u>	<u>7</u>

The deferred tax asset is made up as follows:

	2023	2022
	£000	£000
Short term differences	10	7
	<u>10</u>	<u>7</u>
	<u>10</u>	<u>7</u>

Adtran Networks (UK) Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

23. Provisions

	Warranty provision £000
At 1 January 2023	32
Charged to profit or loss	(1)
	<hr/>
At 31 December 2023	31
	<hr/> <hr/>

The calculation for the costs likely to be incurred under product warranties includes only costs incurred within the contractual average warranty period of 24 months.

24. Share capital

	2023 £000	2022 £000
Allotted, called up and fully paid		
1,368,054 (2022 - 1,368,054) Ordinary shares of £0.10 each	137	137
	<hr/> <hr/>	<hr/> <hr/>

25. Reserves

Share premium account

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

Capital redemption reserve

The capital redemption reserve represents equity redeemed by the company.

Share option reserves

The share option reserve represents the cumulative amounts charged to the profit and loss account in respect of employee share option arrangements where the scheme has not yet been settled by means of an award of shares to an individual.

Profit and loss account

The profit and loss account includes all current and prior period retained profits and losses net of dividends paid and represents the amount of distributable reserves available to the Company.

Adtran Networks (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2023

26. Share-based payments

In prior years, Adtran Networks SE (the parent company) has issued stock options (Plan XIV) for employees of Adtran Networks Limited.

The program for issuance of option rights was referred to as Plan XIV. This program stipulates a four-year vesting period and a total contractual life of seven years for the respective rights issue. The strike price equals the average stock price of the last ten trading days prior to the grant date. The rights could only be exercised if the volume weighted average of the parent company share closing prices on the ten stock exchange trading days before the first day of each exercise period in which the option is exercised was at least 120% of the purchase price.

In 2023, no new options for employees of Adtran Networks Limited were issued from Plan XIV.

All option rights were non-transferable. They could only be exercised as long as the entitled person was employed on a permanent contract by the parent company or by a company in which Adtran Networks SE has direct or indirect interest (affiliated company). Option rights issued to apprentices could only be exercised if the apprentices were hired by the holding company or by an affiliated company on a permanent contract. All option rights expired upon termination of the employment contract. In the event that the person entitled died, became unable to work or retired, special provisions came into force.

The group of people to whom option rights could be issued is defined separately for each stock option program. According to the resolution on 19 May 2021, 35.0% of option rights - in total 1,435,164 options rights could be issued to members of the management board, 5.0% - in total 205,023 options rights - to the management of affiliated companies, 22.5% - in total 922,606 options rights - to company employees, and 37.5% - in total 1,537,676 options rights - to employees of affiliated companies. The management board specified the exact group of people entitled to exercise rights and the scope of each offer. Options rights awarded to the management board were approved by supervisory board.

Subject to the conditions under which option rights were issued, each option right entitled the individual to purchase one common share in the holding company. The conditions of issue specify the term, the exercise price (strike price), any qualifying periods and the defined exercise periods.

Exercise periods were regularly linked to key business events in the holding company's calendar and each had a defined term. Certain other business events could lead to blocking periods, during which option rights could not be exercised. Insofar as regular exercise periods overlap with such blocking periods, the exercise deadline shall be extended by the corresponding number of exercise days immediately after the end of such a blocking period. Option rights could be exercised only on days on which commercial banks are open in Frankfurt am Main, Germany.

The fair value of stock options was estimated by simulation (Monte Carlo method) using a program that was especially adjusted to the underlying plans and based on the assumed strategy for the exercise (earliest possible date).

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**Notes to the Financial Statements
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26. Share-based payments (continued)

In relation to and prior to the final closing of the business combination agreement of Adtran Networks SE (formerly ADVA Optical Networking SE) with Adtran Holdings, Inc. ("Adtran"), Adtran communicated in 2022 an offer to all Adtran Networks Group employees to voluntarily convert the held options from all existing Adtran stock options plans into share-based compensation instruments of Adtran 2020 Employee Stock Incentive Plan (Stock Option Program for Employees). All employees of Adtran Networks Limited utilized the offer.

The employees could choose for each grant date, if all outstanding options from these grant date will be converted or not. The Adtran Holdings Options received in the conversion shall be subject to the terms of the Adtran plan with the following exceptions:

- (a) In case of a consent, the outstanding Adtran Networks options (whether vested or unvested) converted into the right to acquire such number of shares in Adtran Holdings that is equal to the number of Adtran Networks Options multiplied by 0.8244, rounded down to the nearest whole share (each right to acquire one (1) share in Adtran is one (1) "Adtran Option"). The original exercise price of Adtran Networks was multiplied by 0.8244 and converted with the exchange rate either at the time of the consent letter or on the date of the close of the business combination agreement, depending on which is more favorable to the options holder.
- (b) Vesting periods of Adtran options shall continue to be calculated from the date of grant of the converted Adtran options.
- (c) The expiration dates of the Adtran Networks Options shall continue to be determined by the terms of the Adtran option agreements.

Each exercise may not be made for less than 100 shares or, if less, the total remaining shares subject to the Stock Option. No special exercise periods exist at Adtran.

In 2023, Adtran Holdings, Inc. granted SOP, Restricted stock units (RSUs) and Performance stock units (PSUs) to Adtran Networks employees and members of the Adtran Networks management board.

RSUs are awards of a unit representing one share of common stock of Adtran that upon satisfaction of certain conditions, restrictions and contingencies as determined, including the satisfaction of specified performance measures result in the issuance of one share of common stock of Adtran. The lifetime of these instruments is four years with 25% of RSUs vesting each year. RSUs are valued at share price at grant date. RSU shall generally be settled in shares of common stock of Adtran immediately following the date they vest.

PSUs are awards of a unit representing one share of common stock of Adtran, upon satisfaction of certain conditions, restrictions and contingencies as determined, including the satisfaction of specified performance measures. The number of PSU that are earned will be based on the total shareholder return (TSR) of Adtran during the performance period relative to all companies in the Nasdaq telecommunication index. The participant is eligible to earn between 0% and 150% of the target number of PSU based on the companies relative TSR performance during the performance period. For every earned PSU one share of Adtran common stock shall be issued to the participant. The performance period is three years beginning on the date of the grant. The fair value of the PSUs is measured using Monte Carlo simulation.

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**Notes to the Financial Statements
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26. Share-based payments (continued)

Changes in the number of option rights outstanding are detailed in the tables below.

Stock option program 2011 (Plan XIV)

	Weighted average exercise price (pence) 2023	Number 2023	Weighted average exercise price (pence) 2022	Number 2022
Outstanding at the beginning of the year	-	-	8.15	103,100
Granted during the year	-	-	-	-
Forfeited during the year	-	-	8.54	(73,750)
Exercised during the year	-	-	7.17	(29,350)

Plan XIV is equity settled.

The stock options exercised in 2022 had an average share price of EUR 16.05 on the exercise date. There were no options outstanding under Plan XIV at year end.

Stock Option Program for Employees

	Weighted average strike price (in USD) 2023	Number of options 2023	Weighted average strike price (in USD) 2022	Number of options 2022
Options outstanding at the beginning of the year	10.41	59,791	-	-
Options received from exchange	-	-	10.39	60,791
Transfer of employees	8.58	1,468	-	-
Granted options	5.23	2,853	-	-
Exercised options	-	-	9.57	(1,000)
Forfeited options	11.77	(6,831)	-	-
Expired options	10.58	(4,122)	-	-
Outstanding at the end of the year	9.98	53,339	10.41	59,791
Of which exercisable	8.97	31,939		

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26. Share-based payments (continued)

Stock Option Program for Employees is equity settled.

The weighted average remaining contractual life for option rights outstanding on 31 December 2023, is 3.52 years (31 December 2022: 4.1 years). The strike price for these options is between USD 5.23 and USD 12.17 (in 2022: between USD 6.06 and USD 12.17).

The weighted average fair value of stock options granted in 2023 was USD 2.99.

The stock options exercised in 2022 had an average share price of USD 20.94 on the exercise date.

The breakdown of RSU and PSU issued during the year is as follows:

	Number of RSU	Number of PSU
Outstanding at the beginning of the year	-	-
Granted options	6,550	13,300
Exercised options	-	-
Forfeited options	(200)	-
Expired options	-	-
Outstanding at the end of the year	<u>6,350</u>	<u>13,300</u>
Of which exercisable		
The weighted average remaining contractual life (in years) at the end of the year	1.56	2.0
Average fair value of RSUs granted in the current year (in USD)	18.36	16.61

Compensation expenses arising from stock option programs were as follows:

	2023 £000	2022 £000
Share-based compensation expense (Plan XIV)	-	80
Share-based compensation expense (Stock Option Program for Employees)	152	-
	<u>152</u>	<u>80</u>

27. Pension commitments

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the fund and amounted to £497,935 (2022: £511,106). Contributions amounting to £108,729 (2022: £5,080) were payable to the fund at the end of the year and are included in creditors.

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28. Related party transactions

The Company is wholly owned by the parent company and has taken advantage of the exemption in FRS 101 to not disclose transactions with its parent company and other wholly owned subsidiaries within the group.

29. Controlling Party

At 31 December 2023, the immediate parent undertaking is Adtran Networks SE, a company incorporated in Germany. Copies of the financial statements for Adtran Networks SE can be obtained from its registered office, Adtran Networks SE, Fraunhoferstraße 9a, Martinsried/Munich, D-82152, Germany.

The parent undertaking of the smallest group to consolidate their financial statements is Adtran Networks SE, a company incorporated in Germany. Copies of these financial statements can be obtained from Adtran Networks SE, Fraunhoferstraße 9a, Martinsried/Munich, D-82152, Germany.

The parent undertaking of the largest group to consolidate their financial statements is Adtran Holdings, Inc, a company incorporated in the United States of America. Copies of these financial statements can be obtained from Adtran Holdings Inc, 901 Explorer Blvd, Huntsville, AL 35806.