Adtran

Unlocking the future network

FINANCIAL STATEMENTS AND MANAGEMENT REPORT

December 31, 2023

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Combined management report

Basis of preparation

Following the resolution of the annual shareholder's meeting on May 24, 2023, ADVA Optical Networking SE was renamed to Adtran Networks SE with effect from June 8, 2023.

This report combines the group management report of Adtran Networks group ("the group", "Adtran Networks"), comprising Adtran Networks SE (hereafter also referred to as "the company", "Adtran Networks SE") and its consolidated subsidiaries, and the management report of Adtran Networks SE.

The combined management report of Adtran Networks SE was prepared in accordance with sections 289, 315 and 315e of the German Commercial Code (Handelsgesetzbuch, HGB) and German Accounting Standards (Deutsche Rechnungslegungsstandards) No. 17 and 20 (DRS 17 and 20).

All information contained in this report relates to the status on December 31, 2023, or the financial year ending on that date, unless stated otherwise.

The German Corporate Governance Code provides for disclosures on the internal control and risk management system that go beyond the statutory requirements for the management report and are therefore excluded from the auditor's review of the content of the management report ("non-management report disclosures"). These are classified further to risk management and are explained in more detail in the chapter "risk and opportunities report".

Due to rounding, figures in tables may not add up exactly to the totals shown and percentages shown may not exactly reflect the absolute figures to which they relate.

Forward-looking statements

The combined management report of Adtran Networks SE contains forward-looking statements using words such as "believes", "anticipates" and "expects" to describe expected revenues, costs and earnings, anticipated demand for optical networking solutions and anticipated liquidity from which internal estimates may be inferred. These forward-looking statements are based on the beliefs of the Management Board and respective assumptions made, and involve a number of unknown risks, uncertainties and other factors, many of which are beyond Adtran Networks' control. If one or more of these uncertainties or risks materializes, or if the underlying assumptions of the Management Board prove incorrect, actual results can differ materially from those described in or inferred from forward-looking statements and information. Unknown risks and uncertainties are discussed in the "risk and opportunity report" section further below.

Strategy and control design

Adtran Networks strategic goals are focused on growth and profitability, innovation, operational excellence, customer experience and people. The strategic goals are reviewed by both the management board and the supervisory board 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. The strategic goals are traced to each individual employee so that each employee can focus and be evaluated on his/her individual performance and contribution to Adtran Networks overall performance.

Adtran Networks measures the accomplishment of its strategic goals against revenues, pro forma EBIT[1], net cash[2] and as a non-financial criterion customer experience measured by the net promoter score. These metrics represent the group's key performance indicators. The management board sets target values for all four metrics for the coming year and measures actual values against the target values on a monthly basis for revenues and pro forma EBIT, on a quarterly basis for net cash and on a yearly basis for the net promoter score. In case of deviations from plan, corrective action can be taken quickly. This information is summarized and communicated to the management board in monthly, quarterly and yearly reports. There are no separate key performance indicators and corresponding forecast values for Adtran Networks SE.

Adtran Networks had presented its business transformation strategy in the first quarter of 2021. This strategy aims to sustainably improve the margin profile of Adtran Networks's business model and is essentially based on the following three pillars:

- Increase revenues outside of the traditional communication service provider space to 40 % by the end of 2023.
- Increase revenue contribution from the areas of software and services to 30 % by the end of 2023.
- Access new markets and revenue contribution, as well as cost reduction from increased verticalization activities, from the development and production of optoelectronic components.

These pillars will continue to be an essential part of the group's strategy in 2024.

Following the registration of the domination and profit and loss transfer agreement with Adtran Holdings, Inc. on January 16, 2023, Adtran Networks has aligned its strategic objectives with the objectives of the Group as a whole. Due to the significantly expanded product portfolio and additional markets and applications, the objectives of the business transformation strategy were no longer relevant after January 16, 2023. However, the key performance indicators for managing the Adtran Networks group continue to be revenue, pro forma EBIT, net cash and customer satisfaction.

In addition, management at the highest group level of Adtran Holdings is based on revenues and adjusted EBIT[3] for the Adtran Holdings group as a whole. These key figures are important indicators for the Adtran Networks Group. In the 2023 financial year, the Adtran Holdings Group reports revenues of USD 1,149.1 million and an adjusted EBIT of negative USD 9.9 million.

There are no differences in the definition of revenues for the Adtran Networks subgroup compared to US GAAP. The definition of adjusted EBIT differs only insignificantly from the calculation of pro forma EBIT with regard to the reconciliation items.

This annual report continues to report on the previous key performance indicators.

[1] Pro forma EBIT is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, non-recurring expenses related to M&A and restructuring measures are not included.
[2] Net cash is calculated by subtracting total financial liabilities from cash and cash equivalents. Total financial liabilities comprise current and non-current financial liabilities to banks, including factoring agreements, as well as current and non-current financial receivables and liabilities to Adtran Holdings Inc., including receivables and liabilities from the domination and profit and loss transfer agreement and current and non-current lease liabilities in accordance with IFRS 16 Leases. A negative calculation result is referred to as net debt.
[3] Adjusted EBIT is defined as the Adtran Holdings group earnings before interest and tax, determined based on the audited financial results, and adjusted to remove any restructuring expenses; acquisition-related expenses and amortization of intangibles; stock-based compensation expense; the non-cash change in fair value of equity investments held in the deferred compensation plan; and any other non-GAAP exclusions approved by the compensation committee of Adtran Holidngs, Inc.

General economic and market conditions

The global economy at the beginning of 2024

In its latest World Economic Outlook (WEO), the International Monetary Fund (IMF) updated its forecasts for changes in the economic performance of nations and regions and increased the majority of these compared with the last forecast from October 2023. The January 2024 World Economic Outlook estimates the state of the global economy as follows:

Global growth is expected to remain at the same level as the estimated 3.1 % in 2023. In October, the IMF was still forecasting growth of 3.0 %. For the USA, the IMF forecasts growth of 2.1 % compared to 2.5 % in 2023. The eurozone is expected to grow by 0.9 % compared to an estimated 0.5 % in the previous year. For Germany, the IMF forecasts economic growth of 0.5 % compared to the estimated recession of 0.3 % in 2023.

The fiscal policy efforts of global central banks to combat inflation and the associated interest rate hikes will continue to weigh on global economic growth in 2024. However, economic experts believe that inflation will fall faster than expected in most regions. Overall global inflation is expected to fall to 5.8 % in 2024 and to 4.4 % in 2025, although the forecast for 2025 has been revised downwards by the IMF. Given the slowdown in inflation and steady growth, the likelihood of a severe economic crisis has receded and the risks to global growth are largely balanced. On the other hand, a faster decline in inflation could lead to a further loosening of fiscal policy.

This view is shared by the majority of economic experts in the USA and also by the US Federal Reserve. In its first decision of the year, the FOMC unanimously kept interest rates in a target range of 5.25 % to 5.50 %. It was signaled that the FOMC had moved away from its previous tendency to raise interest rates. However, the committee indicated that it is not yet ready to cut interest rates at the next meeting in March 2024 and stated that greater confidence must first be gained that inflation will move towards 2% on a sustained basis.

With regard to Germany and the eurozone, experts do not yet see any loosening of fiscal policy in the short term. The inflation rate in the eurozone fell further from 2.9 % in December 2023 to 2.8 % in January 2024. However, this decline is due in particular to falling energy and food and beverage prices, while an inflationary process can be seen in the services sector. Economic experts therefore assume that the ECB will not cut the key interest rate until June 2024 at the earliest.

During the pandemic, the relevance of an efficient telecommunications infrastructure has once again become clear. However, after record quarters in Q1 and Q2 2023, sentiment in the optical transport technology sector has deteriorated. The major telecommunications providers in particular had built up large inventories and are now postponing infrastructure projects into the future, as the macroeconomic environment and the significant interest rate increases are weighing on the financial profile of these companies. Management currently assumes that our customers' investment behavior will not improve noticeably until the second half of 2024 at the earliest.

Market environment for Adtran Networks

The addressable market for Adtran Networks is determined by the digitization of ecosystems and the resulting increasing demand for cloud[4]-based solutions and underlying communication networks. The rapid adoption of digital processes in all industrial sectors, the creation and use of artificial intelligence and the ubiquitous consumption of high-resolution videos via mobile and fixed networks are important and sustainable growth drivers for the market. Recent developments such as the increased use of home office, home schooling and video conferencing are sustainable accelerating investments in the increasing network expansion. State stimulus and support programs create an additional positive dynamic.

For many years, the communications network supplier industry was characterized by a tension between high development costs and tough competition. This has led to strong selection among manufacturers, and only a few suppliers have been able to hold their own. Market participants with insufficient innovation power or loss-making business models have now largely disappeared from the scene. This has led to market upheaval. In addition, the Covid-19 pandemic has changed perspectives on the importance of network infrastructure. Politics and business have recognized the importance to companies and economies of an efficient communication infrastructure for digital cooperation and virtual collaboration. We are also experiencing security and trust becoming increasingly important in the market environment. As a result of increased security concerns, numerous manufacturers from the Far East are currently being pushed back from the western networks.

In recent years, Adtran Networks has consistently invested in the development of innovative solutions and has brought excellent solutions in the field of secure data transmission to the market. Adtran Networks's network technology enables the construction of a high-performance communication infrastructure that serves as the basis for the digital economy, the industrial internet of things (industrial IoT[5]) – often referred to as Industry 4.0 in Germany – and the digitization of ecosystems. The company addresses important applications in this growth market. Fiber optic transmission technology delivers scalable bandwidth for

[4] Cloud in the context of IT describes a concept where applications no longer run on the user's in-house IT infrastructure (for example, a server) but are outsourced to a service provider whose IT infrastructure is not visible or known in detail – as if it was hidden in a cloud. A typical example is the use of software as a service, where the software is not stored on the user's machine, but on servers of the software service provider.

[5] Network of devices such as vehicles and home appliances that contain electronics, software, sensors, actuators, and connectivity which allows these things to connect, interact and exchange data.

network operators' infrastructure and the data center interconnect (DCI[6]) networks of large enterprises and internet content providers[7]. In the access area of the networks (network edge[8]), the new technology with virtualization enables fast and flexible provision of cloud services and new possibilities for creating edge computing solutions. In addition, the company's synchronization technology provides timing information that is of the utmost importance when building broadband 5G mobile networks, globally distributed data centers and for energy suppliers.

Adtran Networks is well positioned in several areas of the WDM[9] market, the core segment of the overall optical networking hardware market. The adjacent market for Ethernet[10]-based network access solutions is gaining new momentum with the introduction of virtualized network features. Here, the company's solutions can address more and more new growth applications and open up additional opportunities. Finally, Adtran Networks provides differentiated network synchronization solutions for mobile networks and expands the feature set of its portfolio to address timing requirements for other industries, particularly critical infrastractrue. The total addressable market for Adtran Networks is estimated to be USD 10.8 billion[11] in 2023, growing to USD 12.1 billion by 2028 while the possible additional opportunities resulting from the shift from Asian suppliers (especially Huawei) to European suppliers are not quantified (see also the chapter "market, target customers and growth drivers").

[6] Network that connects geographically dispersed data centers.
[7] Internet content providers are entities whose primary business is the creation, storage and dissemination of digital information. ICPs are also commonly referred to as over-the-top (OTT), web 2.0 and digital media companies.
[8] This term is often used for the area of the network infrastructure where the data streams from the end users' access lines converge. These data streams are often bundled at the network edge and functions are defined for the end customer.
[9] WDM expands the capacity of networks by allowing a greater number of signals to be transmitted over a single fiber. WDM enables numerous channels of data to be multiplexed into unique color bands, and then to be combined and transmitted over a single fiber and de-multiplexed at the other end.
[10] Ethernet is a packet-based data transmission protocol with a data rate of 10Mbit/s. Fast Ethernet provides a data rate of 100Mbit/s, Gigabit Ethernet 1Gbit/s and 10 Gigabit Ethernet 10Gbit/s. Today also 40, 100 and 400 Gigabit Ethernet solutions are commercially available with data rates of 40Gbit/s, 100Gbit/s and 400Gbit/s, respectively.
[11] World market excluding China for Metro and Backbone WDM (Omdia, "Optical Networks Forecast", published November 2023), Access Switching and Ethernet Demarcation, (Omdia: "Service Provider Switching and Routing Forecast", October 2023) and network synchronization (Adtran Networks own estimates)

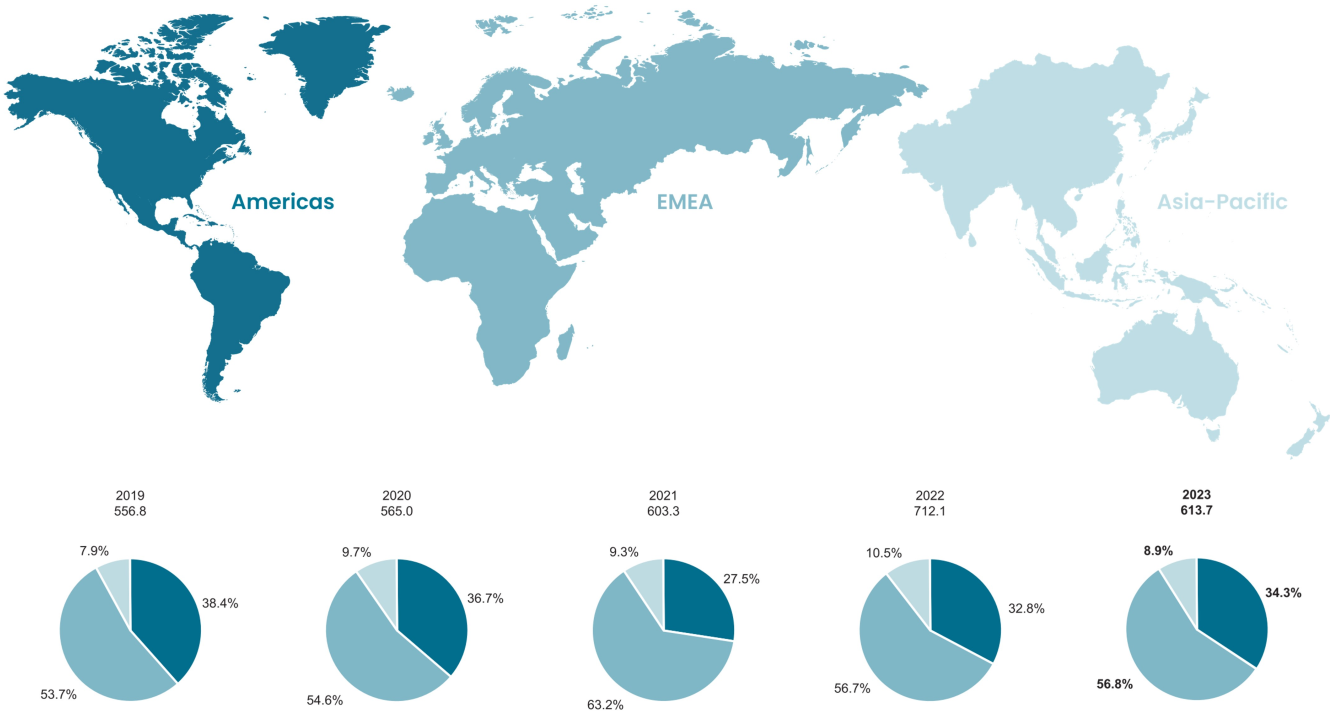
Business development and operational performance of the group

Revenues

Revenues represent one of the four key performance indicators for Adtran Networks. In 2023, the group generated revenues of EUR 613.7 million, a decrease of 13.8 % on revenues of EUR 712.1 million in 2022. Despite significant order backlogs at the beginning of the year, the easing of the semi-conductor crisis led to a softening of demand from most customers due to their high inventories, this was particularly evident with telecommunication service providers and internet content providers (ICPs[12]). The group reported revenues of EUR 118.5 million in Q4 2023. This corresponds to a decrease of 18.7 % compared to Q3 2023 and of 39.5 % compared to Q4 2022 and results, similarly this is driven by telecommunication service providers and internet content providers.

Revenues by region

(in millions of EUR and relative to total revenues)



In 2023, EMEA (Europe, Middle East and Africa) was again the most significant sales region, followed by the Americas and Asia-Pacific.

Year-over-year, EMEA revenues of EUR 348.5 million in 2023 were down from EUR 403.7 million in 2022. Adtran Networks continues to maintain a broad and loyal customer base in this region, however, high customer inventories have driven lower demand in 2023. Enterprise revenues nevertheless remain strong. The decline of 13.7 % compared to the previous year is due to low demand from service providers.

In the Americas region, revenues decreased from EUR 233.8 million in 2022 to EUR 210.6 million in 2023. This, similar to EMEA, is driven by decreased demand from service and internet content providers.

In Asia-Pacific, revenues also strongly decreased from EUR 74.6 million in 2022 to EUR 54.6 million in 2023. Also here the decline in key customer demand due to high inventories drove the decline.

[12] ICPs are companies that create, store and distribute digital content. ICPs are often also referred to as OTT (over-the-top) providers, Web2.0 or digital media companies.

Results of operations

(in millions of EUR, except earnings per share)	2023	Portion of revenues	2022	Portion of revenues
Revenues	**613.7**	**100.0 %**	**712.1**	**100.0 %**
Cost of goods sold *)	(395.1)	64.4 %	(477.2)	67.0 %
Gross profit *)	**218.6**	**35.6 %**	**234.9**	**33.0 %**
Selling and marketing expenses *)	(68.5)	11.2 %	(76.2)	10.7 %
General and administrative expenses *)	(42.1)	6.9 %	(51.7)	7.3 %
Research and development expenses *)	(105.6)	17.2 %	(99.3)	14.0 %
Other operating income and expenses, net	11.0	1.8 %	10.5	1.5 %
Operating income	**13.3**	**2.2 %**	**18.1**	**2.5 %**
Interest income and expenses, net	(3.3)	0.5 %	(2.1)	0.3 %
Other financial gains and losses, net	(4.0)	(0.7)%	4.1	0.6 %
Income before tax	**6.0**	**1.0 %**	**20.1**	**2.8 %**
Income tax expense (benefit), net	(20.5)	3.3 %	(1.9)	0.3 %
Net income	**(14.5)**	**(2.4)%**	**18.1**	**2.5 %**
Earnings per share (in EUR)				
basic	0.00		0.00	
diluted	0.00		0.00	

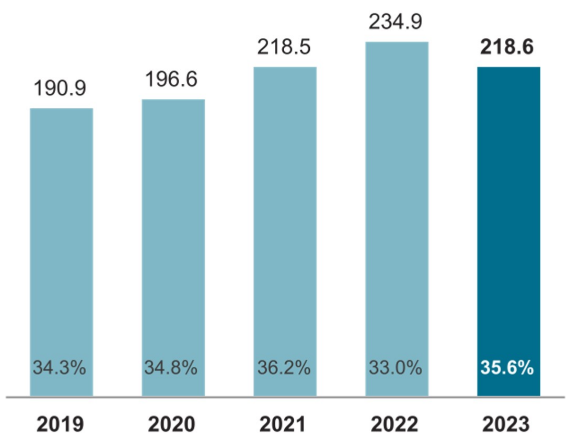
*) Since 2023, rental expenses for offices have been allocated to the functional areas. Previously, these were included in general and administrative expenses. The previous year's figures have been adjusted accordingly in the table above and in the following charts.

Cost of goods sold and gross profit

Cost of goods sold decreased from EUR 477.2 million in 2022 to EUR 395.1 million in 2023, primarily due to the lower revenues as well as cost reductions in manufacturing overheads. Cost of goods sold includes amortization charges for capitalized development projects of EUR 39.2 million in 2023 after EUR 41.9 million in 2022.

Gross profit*)

(in millions of EUR and relative to total revenues)

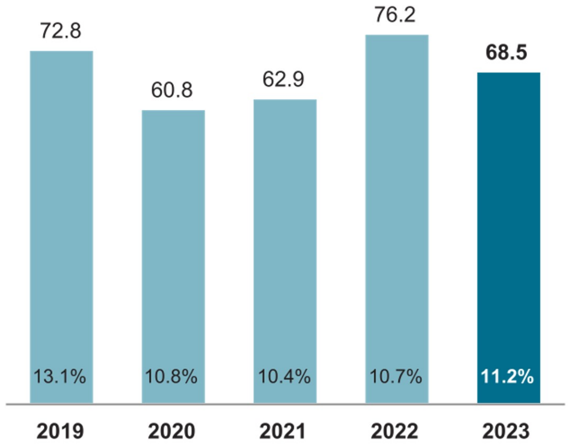


*) Since 2023, rental expenses for offices have been allocated to the functional areas. Previously, these were included in general and administrative expenses. The previous year's figures have been adjusted accordingly.

Gross profit declined to EUR 218.6 million in 2023 after EUR 234.9 million in 2022, comprising 35.6 % and 33.0 % of revenues, respectively. The group's gross margin in 2023 was positively impacted by decreasing costs due to the ending supply chain crisis. In addition, the USD devaluation against the EUR had a positive effect on the gross margin, as a significant portion of the cost of goods sold is incurred in this currency. In general, the development of the group's gross margin is impacted by variations in regional revenue distribution and in product and customer mix.

Selling and marketing expenses*)

(in millions of EUR and relative to total revenues)



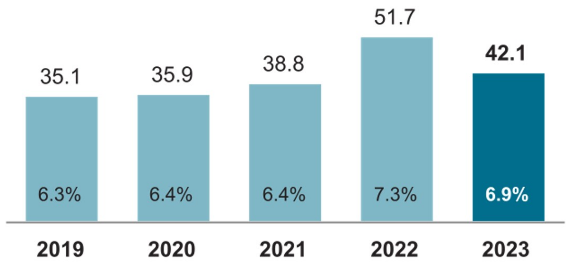
*) Since 2023, rental expenses for offices have been allocated to the functional areas. Previously, these were included in general and administrative expenses. The previous year's figures have been adjusted accordingly.

Selling and marketing expenses of EUR 68.5 million in 2023 were down from EUR 76.2 million in 2022 and comprised 11.2 % and 10.7 % of revenues, respectively. The absolute cost decrease is mainly attributable to lower variable personnel expenses relating to the decreased revenues and order entries in 2023 as well as to reductions in force.

Adtran Networks continues to focus on after-sales customer service and direct-touch activities with those key customers served via indirect distribution channels. Establishing direct contact enables the group to work more closely with its end customers and better understand their specific requirements, which in turn helps in developing market-relevant products.

General and administrative expenses*)

(in millions of EUR and relative to total revenues)

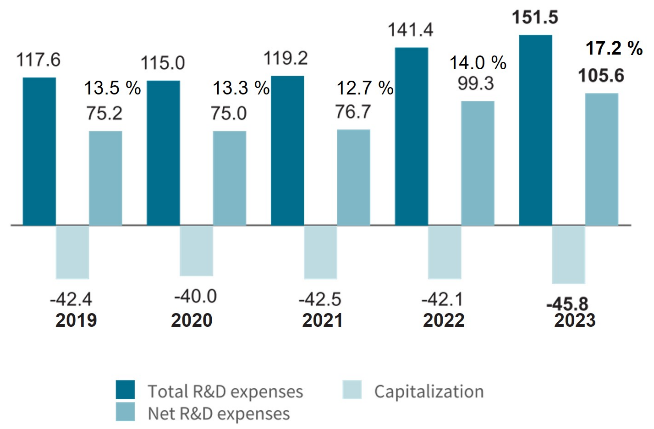


*) Since 2023, rental expenses for offices have been allocated to the functional areas. Previously, these were included in general and administrative expenses. The previous year's figures have been adjusted accordingly.

General and administrative expenses were at EUR 42.1 million in 2023, largely down from EUR 51.7 million recorded in 2022. The share of total revenues was at 6.9 % in 2023 versus 7.3 % in 2022. The decrease in general and administrative expenses results in particular from lower personnel expenses as a result of restructuring measures. In prior year, higher expenses for legal and consulting services in connection with the business combination with Adtran Holdings, Inc. had been considered.

Research and development expenses*)

(in millions of EUR and relative to total revenues)



*) Since 2023, rental expenses for offices have been allocated to the functional areas. Previously, these were included in general and administrative expenses. The previous year's figures have been adjusted accordingly.

Net research and development expenses of EUR 105.6 million were up from EUR 99.3 million reported in 2022, thereby constituting 17.2 % of revenues in 2023 after 14.0 % in the prior year. Capitalization of development expenses of EUR 45.8 million in 2023 were above the EUR 42.1 million seen in 2022 in particular due to the capitalization of software development projects. The capitalization rate in 2023 amounted to 30.3 % (prior year: 31.1 %).

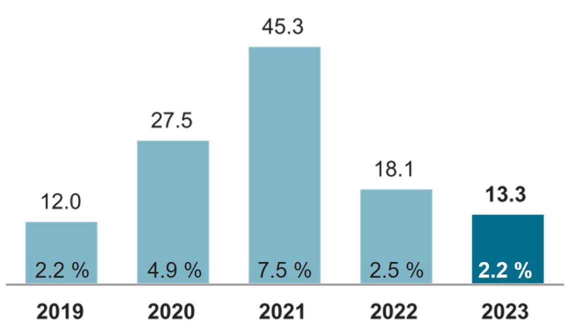
Adtran Networks' research and development activities are driven by the distinct emphasis on differentiating its innovative connectivity solutions for cloud and mobile services and working with customers and partners to identify and meet their current and future needs. The resulting key technologies and products simplify complicated existing network structures and supplement existing solutions.

During 2023, research and development activities were further focused on the following three technology areas:

- Enhancements to the open optical transport solution including the development of the new TeraFlex™[13] terminal and a new generation of open line system (OLS[14])
- A new generation of 100G products including network functions virtualization (NFV[15]) software for the company's cloud access[16] portfolio
- Ultra-precise synchronization technologies for 5G mobile networks and other industry verticals.

Operating income

(in millions of EUR and relative to total revenues)



[13] Brand name for Adtran Networks' high-speed terminal, which generates data rates of up to 600Gbit/s per wavelength. TeraFlex™ is a so-called open terminal (OT) and part of the Adtran Networks FSP 3000 platform.
[14] An optical transmission system basically consists of two main components. The terminal generates and receives the optical signals. The line system bundles wavelengths and amplifies the signal power. In an open system architecture, terminals and line systems can be deployed independently and openly combined with third-party equipment.
[15] NFV is an alternative design approach for building complex IT applications, particularly in the telecommunications and service provider industries. NFV virtualizes entire classes of functions into building blocks that may be connected, or chained, together to create services. With the introduction of NFV, the architecture of service provider networks will change. Functions that were previously tied to a particular network element can now be hosted centrally leading to a new distribution of hardware and software functionality across networks.
[16] This marketing term is often used as an umbrella for technologies that play a role in accessing the cloud.

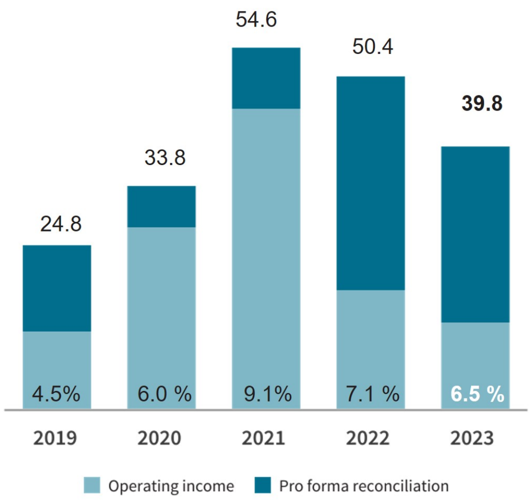
Net other operating income and expenses amounted to positive EUR 11.0 million in 2023, slightly up from positive EUR 10.5 million in the prior year. In 2023, this item includes in particular grants for research projects and the reversal of provisions recognized in previous periods. In addition, income from the provision of services to Adtran Holdings, Inc. and its subsidiaries was recognized for the first time in 2023. In 2022, this item was mainly impacted by grants for research projects as well as the de-recognition of liabilities and reversal of provisions recognized in prior periods.

Total operating expenses decreased from EUR 220.0 million in 2022 to EUR 205.3 million in 2023, representing 33.4 % of revenues in 2023 after 30.9 % in the prior year.

Overall, Adtran Networks reported a decreased operating income of EUR 13.3 million in 2023 after an operating income of EUR 18.1 million in the prior year. The decline in operating result is largely due to the negative development of revenues, which was only partially offset by improved gross margins and cost savings in the past financial year as a result of restructuring measures.

Pro forma EBIT[17]

(in millions of EUR and relative to total revenues)



Pro forma EBIT represents one of the four key performance indicators for the group. As pro forma EBIT excludes non-cash charges related to stock compensation, impairment of goodwill and amortization of intangibles assets recognized in business combinations as well as non-recurring expenses related to M&A and restructuring measures, Adtran Networks' management board believes that pro forma EBIT is a more appropriate measure than operating income when benchmarking the group's operational performance against other telecommunications equipment providers.

The pro forma EBIT clearly decreased from EUR 50.4 million in 2022 to EUR 39.8 million in 2023.

The reconciliation of operating profit to pro forma operating profit is as follows:

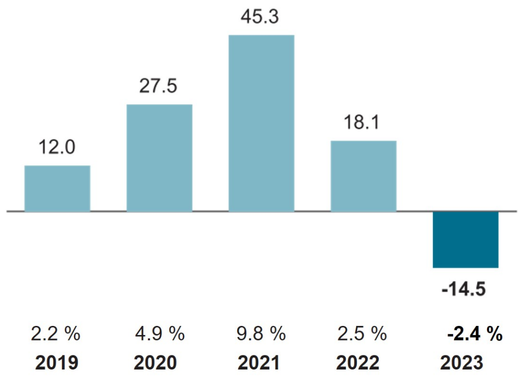
(in millions of EUR)	2023	2022
Operating income	**13.3**	**18.1**
Expenses related to share-based compensation	5.3	3.7
Amortization of intangible assets from business combinations	3.3	3.7
Impairment of goodwill	4.5	3.5
Expenses related to M&A transactions, integration and restructuring expenses	13.4	21.3
Pro forma EBIT	**39.8**	**50.4**

In 2023, the expenses related to M&A transactions, integration and restructuring expenses included restructuring expenses of EUR 12.3 million (prior year: EUR 1.6 million). The significant increase in restructuring expenses is the result of cost consolidation measures initiated at the end of 2022, particularly in the area of personnel. The previous year's figure included high costs in connection with the corporate transaction with Adtran Holdings, Inc.

[17] Pro forma EBIT is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, non-recurring expenses related to M&A and restructuring measures are not included.

Net income (loss)

(in millions of EUR and relative to total revenues)



Given the substantially decreased operating income combined with the significantly higher income tax charges and the negative financial result, compared to 2022, Adtran Networks reported a net loss of EUR 14.5 million for 2023, after a net income of EUR 18.1 million in 2022. Beyond operating income, the net result in 2023 included net interest expenses of EUR 3.3 million (prior year: EUR 2.1 million) and net other financial loss of EUR 4.0 million (prior year: net other financial gain of EUR 4.1 million). Other financial gains and losses mainly relate to the translation of foreign currency assets and liabilities and to gains and losses on hedging instruments.

In 2023, the group reported an income tax expense of EUR 20.5 million after an income tax expense of EUR 1.9 million in 2022, representing a tax rate of 341.37 % (previous year: tax rate of 9.64 %). The current tax expense in 2023 mainly results from the reversal of deferred tax assets on the tax loss carryforwards of Adtran Networks SE, while the tax expense in 2022 resulted in particular from tax charges on the actual IFRS income, which were only partially offset by the increase in deferred tax assets on the tax loss carry forwards of Adtran Networks SE.

Earnings per share

Basic and diluted earnings per share were negative EUR 0.28 each, in 2023 after positive EUR 0.35 each in 2022, respectively. Basic average shares outstanding increased by 0.3 million to 52.0 million in 2023, due to capital increases from the exercise of stock options. Diluted weighted average shares outstanding were at 52.0 million in 2023. A dilution effect was not to be taken into account due to the consolidated net loss for the year.

Summary: Business development and operational performance

Despite an increase in the gross margin in 2023 compared to the previous year and the reduction in operating costs, the operating result deteriorated in connection with declining revenues. Adtran Networks reports a consolidated net loss for the year 2023, in particular due to a sharp increase in tax expenses.

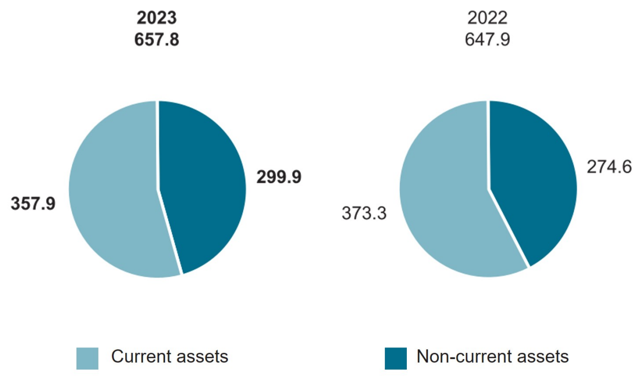
Net assets and financial position of the group

Balance sheet structure

Adtran Networks' total assets slightly increased by EUR 9.8 million or 1.5 %, from EUR 647.9 million at year-end 2022 to EUR 657.8 million at the end of 2023.

Assets

(on December 31, in millions of EUR)



Current assets decreased by EUR 15.5 million or 4.1 % from EUR 373.3 million on December 31, 2022, to EUR 357.9 million on December 31, 2023, and comprised 54.4 % of the balance sheet total after 57.6 % at the end of the prior year. The decrease in current assets was mainly driven by a clear decline in cash and cash equivalents by EUR 27.9 million to EUR 30.6 million as of December 31, 2023. This related in particular to the negative development of results and the need for increased investments in net working capital[18] especially in relation to trade accounts payable. Trade accounts receivable largely decreased from EUR 123.7 million to EUR 115.6 million at the end of December 2023. DSOs[19] deteriorated significantly from 55 days reported in 2022 to 71 days in 2023. Inventories were down by EUR 22.6 million to EUR 106.3 million. This decline is due in particular to lower material purchases as a result of the end of the supply chain crisis. Inventory turns decreased from 3.9x in 2022 to 3.3x in 2023. At the same time, other current assets significantly increased in particular due to increased receivables from funded research projects by EUR 18.7 million to EUR 78.2 million at year-end 2023.

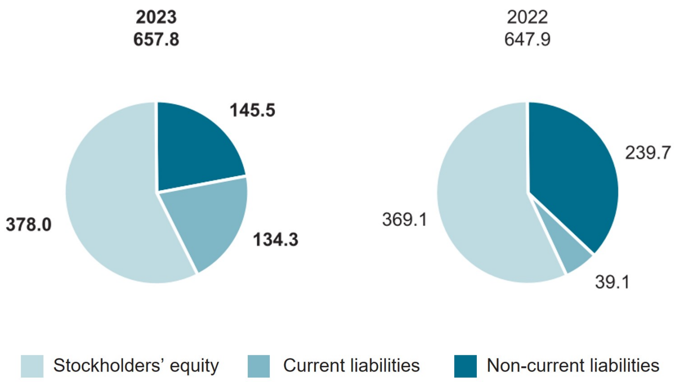
Non-current assets increased by EUR 25.4 million from EUR 274.6 million at year-end 2022 to EUR 299.9 million on December 31, 2023. This increase results in particular from the increase in other non-current assets by EUR 17.2 million to EUR 23.3 million at the current year-end, particularly in connection with increased receivables from funded research projects. Right-of-use assets from lease agreements increased to EUR 28.3 million at the end of 2023 after EUR 18.6 million at the end of the previous year, primarily due to the conclusion of a new lease agreement for offices. Property plant and equipment increased by EUR 4.0 million mainly due to investments in the extension of the production facility in Meiningen. Capitalized development projects increased from EUR 98.0 million to EUR 104.6 million at year-end 2023 mainly driven by the capitalization of software development. At the same time, intangible assets from business combinations decreased from EUR 8.5 million in 2022 to EUR 5.2 million at the end of 2023, in particular due to scheduled amortization. Goodwill was impacted by an impairment charge as well as by exchange rate effects overall resulting in a reduction by EUR 6.4 million to EUR 64.9 million at the end of 2023. Deferred tax assets (after netting) decreased by EUR 4.8 million to EUR 11.7 million at the end of 2023 mainly due to the decline of deferred tax asset on tax loss carry forwards of Adtran Networks SE. Deferred tax assets and liabilities are presented net in accordance with relevant netting requirements.

Meaningful additional assets belonging to Adtran Networks are the broad and global customer base of several hundred service providers and thousands of enterprises, the Adtran Networks, Oscilloquartz and Ensemble[20] brands, the vendor and partner relationships and a highly motivated and skilled global team. These assets are not recognized in the balance sheet. Customer satisfaction as measured by the net promoter score[21] represents one of the group's four key performance indicators.

[18] Net working capital is defined as the sum of trade receivables and inventories less trade payables.
[19] Days Sales Outstanding: The key figure describes the average number of days between invoicing and receipt of payment.
[20] Ensemble is a trademark used by Adtran Networks for the company's software solutions.
[21] The NPS is obtained by asking customers a single question on a 0 to 10 rating scale: "How likely is it that you would recommend our company to a friend or colleague?". Based on their responses, customers are categorized into one of three groups: promoters (9–10 rating), passives (7–8 rating), and detractors (0–6 rating). The percentage of detractors is then subtracted from the percentage of promoters to obtain a net promoter score.

Liabilities

(on December 31, in millions of EUR)



With respect to equity and liabilities, current liabilities decreased by EUR 94.2 million from EUR 239.7 million at year-end 2022 to EUR 145.5 million at the end of 2023. The decline is mainly due to a significant decrease of trade accounts payables by EUR 45.6 million to EUR 43.1 million at the end of 2023. DPO[22] declined to 62 days in 2023 compared to 65 days in the previous year. The decrease in trade accounts payable relates to the decreased number of inventories and resulted in particular from lower material purchases. In 2023, current liabilities to banks were fully repaid. Due to a new factoring agreement concluded at the end of 2023, the Group continues to report a liability to banks as at December 31, 2023. The financial liabilities are explained in more detail in a separate section below. Other current liabilities at the end of 2023 include in particular obligations from subsidized research projects and decreased by EUR 7.6 million compared to December 31, 2022. The decrease is in particular due to the fact that the liabilities to employees from variable remuneration components included in previous years will be paid out monthly with the basic salary as from 2023.

Non-current liabilities at EUR 134.3 million at year-end 2023 were significantly up from EUR 39.1 million reported at prior year-end. In 2023, joint financing was provided by Adtran Holdings, Inc., which led to the recognition of a loan to Adtran Holdings, Inc. in the amount of EUR 52.8 million at year-end 2023. The financial liabilities are explained in more detail in a separate section below. A further factor was the significant increase in other non-current liabilities from EUR 4.8 million at the end of 2022 to EUR 22.4 million as at December 31, 2023 due to increased obligations from funded research projects. Deferred tax liabilities increased by EUR 9.3 million to EUR 12.2 million as of December 31, 2023. In addition, non-current liabilities from leases were EUR 9.7 million higher at EUR 25.3 million in particular due to the new rental agreements.

Stockholders' equity increased slightly by EUR 8.9 million from EUR 369.1 million at year-end 2022 to EUR 378.0 million at the end of 2023. The negative effect from the consolidated net loss for the year was offset by the loss absorption of the result of Adtran Networks SE by Adtran Holdings, Inc. In 2023, capital increases totaling EUR 0.3 million from the exercise of stock options were reported.

[22] Days Payable Outstanding: The key figure indicates the average number of days between receipt of invoice and outgoing payment.

Balance sheet ratios

The equity ratio clearly improved to 57.5 % at the end of 2023, after 57.0 % at year-end 2022. The non-current assets ratio amounted to 126.0 % on December 31, 2023, with stockholders' equity fully covering the non-current assets.

(on December 31, in %)		2023	2022
Equity ratio	Stockholders' equity / Total assets	57.5	57.0
Non-current asset ratio	Stockholders' equity / Non-current assets	126.0	134.4
Liability structure	Current liabilities / Total liabilities	52.0	86.0

Capital expenditures

Capital expenditures for additions to property, plant and equipment in 2023 amounted to EUR 19.0 million, up from EUR 17.5 million in 2022, largely reflecting higher investments in connection with the expansion of the Meiningen production facility.

Capital expenditures for intangible assets of EUR 49.2 million in 2023 were down from EUR 55.7 million in the prior year. This total consists of capitalized development projects of EUR 45.8 million in 2023 after EUR 42.1 million in 2022, and investments in concessions, software licenses and other intangible assets of EUR 3.4 million in 2023 after EUR 13.6 million in 2022. Investments in capitalized development projects are mainly driven by development activities for open optical transmission technology including the new SFlex™ terminals and Adtran Networks' new generation of cloud access products with data rates of 100Gbit/s and network synchronization solutions.

Cash flow

(in millions of EUR)	2023	Portion of cash	2022	Portion of cash
Operating cash flow	37.6	123.1 %	14.8	25.4 %
Investing cash flow	(64.0)	209.6 %	(73.1)	125.0 %
Financing cash flow	(0.2)	0.5 %	5.4	9.2 %
Net effect of foreign currency translation on cash and cash equivalents	(1.3)	4.3 %	2.3	4.0 %
Net change in cash and cash equivalents	**(27.9)**	**91.3 %**	**(50.5)**	**86.5 %**
Cash and cash equivalents at the beginning of the period	58.4	191.3 %	109.0	186.5 %
Cash and cash equivalents at the end of the period	**30.6**	**100.0 %**	**58.4**	**100.0 %**

Cash flow from operating activities of EUR 37.6 million in 2023 was significantly up by EUR 22.8 million from EUR 14.8 million in 2022. This increase was mainly due to the significantly decrease in cash outflows for working capital.

Cash flow from investing activities was negative EUR 64.0 million in 2023 after negative EUR 73.1 million in the prior year. In 2023, capital expenditures for property, plant and equipment as well as for capitalized development projects and other intangible assets increased compared to the previous year, while at the same time investments in other intangible assets fell. In the previous year, this item included investments from a joint development agreement. In addition, 2023 includes inflows from the sale of debt instruments of other companies from a factoring agreement concluded at the end of 2023 in the amount of EUR 3.9 million.

Finally, cash flow from financing activities was at negative EUR 0.2 million in 2023 down compared to the level of positive EUR 5.4 million in 2022. The net cash outflow in in 2023 mainly resulted from scheduled repayments and interest payments for existing liabilities to banks and to Adtran Holdings, Inc. This outflow is offset in 2023 by inflows from financial liabilities in connection with a new factoring agreement in the amount of EUR 13.3 million.The net cash inflow in 2022 resulted in particular from the utilization of existing credit lines to finance working capital. In addition, higher inflows from the exercise of stock options were taken into account in 2022.

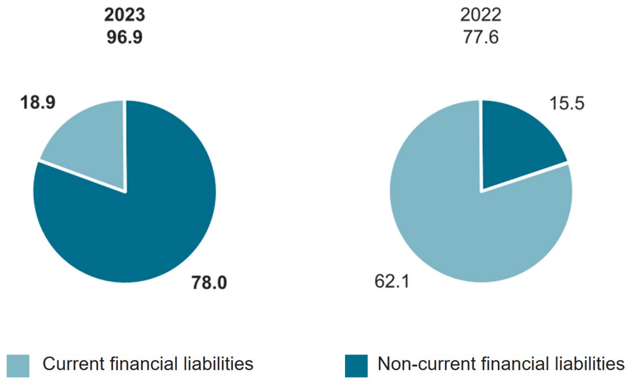
Overall, including the net effect of foreign currency translation on cash and cash equivalents of negative EUR 1.3 million (2022: positive EUR 2.3 million), cash and cash equivalents again significantly decreased by EUR 27.9 million in 2023, from EUR 58.4 million at year-end 2022 to EUR 30.6 million at the end of 2023, after a decrease of EUR 50.5 million in the prior year.

Financing and liquidity

Adtran Networks' financial management is performed centrally by Adtran Networks SE. Its objective is to provide sufficient funds to ensure ongoing operations and to support the group's projected growth. Beyond the strong equity base appropriate for the business, Adtran Networks finances its business by means of loans provided by Adtran Holdings, Inc. and liabilities with maturities typically exceeding the useful life of the assets being financed. For any liability taken, Adtran Networks is focused on minimizing related interest cost, as long as access to funds is not at risk. Excess funds are generally used to redeem liabilities.

Financial liabilities

(on December 31, in millions of EUR)



In 2023, financial liabilities increased by EUR 19.3 million to EUR 96.9 million at the end of 2023. Current liabilities to banks due to loan agreements of EUR 56.4 million at the end of 2022, were fully repaid and replaced by financing via Adtran Holdings, Inc. in the maximum amount of USD 75 million, which can be drawn and repaid at any time. At the end of 2023, USD 57.5 million (EUR 52.8 million) had been drawn from this financing facility. They are reported under non-current financial liabilities due to the contract term until 2028. Due to a new factoring agreement concluded at the end of 2023, the Group continues to report a current liability to banks as at December 31, 2023.

Current lease liabilities slightly decreased by EUR 0.1 million, to EUR 5.6 million at the end of December 2023 while non-current lease liabilities increased by EUR 9.7 million to EUR 25.3 million.

Further details about the group's financial liabilities can be found in notes (14) and (15) to the consolidated financial statements.

Net cash[23]

Net cash represents one of the four key performance indicators for the group. Mainly as a result of the decline in cash and cash equivalents, Adtran Networks' net cash declined significantly by EUR 23.2 million from net debt of EUR 19.2 million at year-end 2022 to net debt of EUR 42.4 million at the end of 2023. Cash and cash equivalents of EUR 30.6 million on December 31, 2023, and of EUR 58.4 million on December 31, 2022, were invested mainly in euro, USD and in GBP.

[23] Net cash is calculated by subtracting total financial liabilities from cash and cash equivalents. Total financial liabilities comprise current and non-current financial liabilities to banks, including factoring agreements, as well as current and non-current financial receivables and liabilities to Adtran Holdings Inc., including receivables and liabilities from the domination and profit and loss transfer agreement and current and non-current lease liabilities in accordance with IFRS 16 Leases. A negative calculation result is referred to as net debt.

Net cash/(debt) as of December 31 is calculated as follows:

(in millions of EUR)	2023	2022
Liabilities to banks		
current	(13.3)	(56.4)
non-current	—	—
Financial liabilities to Adtran Holdings, Inc.		
non-current	(52.8)	—
Lease liabilities		
current	(5.6)	(5.6)
non-current	(25.3)	(15.6)
Receivable from Adtran Holdings, Inc. due to the control and profit and loss transfer agreement	23.9	—
Cash and cash equivalents	30.6	58.4
Net cash/(debt)	**(42.4)**	**(19.2)**

äAs of December 31, Adtran Networks reports liquidity ratios as follows:

		2023	2022
Cash ratio	Cash and cash equivalents / Current liabilities	0.00	0.00
Quick ratio	Monetary current assets* / Current liabilities	0.00	0.00
Current ratio	Current assets / Current liabilities	0.00	0.00

* Monetary current assets are defined as the sum of cash and cash equivalents, short-term investments and securities and trade accounts receivable.

Return on capital employed (ROCE[24])

Return on capital employed in 2023 was at 3.0 %,down from 4.4 % reported in 2022. The decrease is mainly due to the lower operating result in 2023. Capital employed increased by EUR 18.0 million, in particular due to the increase in total assets in 2023.

(base data in millions of EUR)		2023	2022
Operating income		13.3	18.1
Average total assets*		646.4	625.9
Average current liabilities*		209.4	211.9
ROCE	Operating income / Ø total assets – Ø current liabilities	**3.0 %**	**4.4 %**

* Arithmetic average of five quarterly period-end values (Dec. 31 of the prior year and Mar. 31, Jun. 30, Sep. 30 and Dec. 31 of the year).

Summary: Net assets and financial position

Despite the significant improvement in cash flow from operating activities, cash and cash equivalents significantly decreased. Nevertheless, Adtran Networks' net assets and financial position remains stable in 2023.

Transactions with related parties

Transactions with related individuals and legal entities are discussed in notes (39) and (40) to the consolidated financial statements.

[24] ROCE is the operating result for the current period divided by the capital employed. The capital employed is the difference between the average balance sheet total and the average current liabilities of the period, calculated as the arithmetic average of the quarterly balance sheet date values.

Performance of Adtran Networks SE

In addition to reporting on the Adtran Networks Group, the development of Adtran Networks SE is explained below.

Adtran Networks SE prepares its annual financial statements in accordance with the provisions of the German Commercial Code. The corresponding complete financial statements are published separately.

Offices and organization

The company maintains its registered office in Meiningen, Germany. This is also the location of the main production and development facility of the company. In Martinsried/Munich, the company maintains its headquarter with all central functions and the sales and marketing organization. Furthermore, Adtran Networks maintains some small to midsize national and international offices.

Operational performance

In the past financial year, Adtran Networks SE generated sales totaling EUR 431.3 million. This corresponds to a decrease of 15.2 % compared to sales of EUR 508.8 million in the previous year. Despite substantial order backlogs at the beginning of the year, the easing of the semiconductor crisis led to a weakening of demand among most customers due to high inventories, particularly in the market segments of telecommunications service providers and Internet content providers (ICPs).

EMEA remained the most important sales region in 2023, followed by the Americas and Asia-Pacific. Sales in EMEA decreased by 16.5 % from EUR 340.5 million to EUR 284.3 million. The share of total sales decreased from 66.9 % in 2022 to 65.9 % in 2023. Despite the decline in sales, Adtran Networks SE is strong in the EMEA region and is achieving good success with its mature partner strategy and broad, loyal customer base. In the Americas region, sales fell by 2.3%, from EUR 99.1 million in 2022 to EUR 96.8 million in 2023. This is also due to lower demand from telecommunications service providers and internet content providers, while the regional share of total annual sales increased to 22.4 % in 2023 after 19.5 % in 2022. In the Asia-Pacific region, sales decreased by 27.7 % from EUR 69.3 million in 2022 to EUR 50.1 million in 2023. The decline is due to a drop in demand from key customers as a result of high inventory levels. The Asia-Pacific region contributed 11.6 % to total sales in 2023, compared to 13.6 % in 2022.

Cost of sales decreased from EUR 327.0 million in 2022 to EUR 270.0 million in 2023. The share of sales of 62.6 % decreased compared to the previous year (64.3 %).

Gross profit decreased from EUR 181.8 million or 35.7 % of sales in 2022 to EUR 161.3 million or 37.4% of sales in 2023. The company's gross profit is influenced by shifts in the regional distribution of sales and changes in the customer and product mix.

Selling and marketing expenses increased from EUR 33.8 million in 2022 to EUR 41.1 million in 2023, mainly due to higher recharges from group companies.

General administrative expenses fell from EUR 39.2 million in 2022 to EUR 24.7 million in 2023. The decrease versus 2022 is due to significant lower legal and consulting services in connection with the business combination with Adtran Holdings in 2022.

After increased capitalization of internally generated intangible assets worth EUR 45.8 million in 2023 compared to EUR 42.1 million in the previous year, research and development costs amounted to EUR 119.6 million or 27.7 % of sales compared to EUR 117.5 million or 23.1 % of sales in the previous year.

Other operating result (other operating income less other operating expenses) fell significantly from EUR 34.2 million in the previous year to EUR 1.4 million in 2023. Other operating result in 2022 was largely impacted by the disclosure of hidden reserves of assets when contributed to Adva Network Security GmbH, Berlin.

In 2023 income from affiliated companies was distributed to the company in the amount of EUR 10.9 million. This investment income resulted from dividend distributions from Adtran Networks North America Inc (Norcross/Atlanta, USA), Adtran Networks (UK) Ltd (York, United Kingdom), Adtran Networks Singapore Pte Ltd (Singapore) and Oscilloquartz SA (Saint-Blaise, Switzerland). There were no profit distributions in the previous year.

Summary: Operational performance

Predominantly the decline in revenues combined with higher operating cost led to the significant negative result after taxes, which was fully offset by the loss absorption by Adtran Holdings, Inc..

Net assets and financial position

Adtran Networks SE's total assets decreased by EUR 17.4 million to EUR 462.5 million as at December 31, 2023, compared to EUR 479.9 million on the previous year's reporting date.

Fixed assets decreased from EUR 222.3 million to EUR 219.2 million and now account for 47.4 % of the balance sheet total, compared to 46.3 % at the end of the previous year. The decrease in fixed assets is mainly due to the reduction in financial assets, in which shares in affiliated companies fell by EUR 9.5 million from EUR 74.3 million to EUR 64.8 million. In addition, loans to affiliated companies fell by EUR 3.3 million from EUR 5.1 million to EUR 1.8 million in the financial year due to scheduled repayments. The reduction in financial assets is offset by the increase in internally generated industrial property rights and similar rights by EUR 6.0 million from EUR 117.5 million to EUR 123.5 million and by the increase in property, plant and equipment by EUR 4.2 million from EUR 17.7 million to EUR 21.9 million. Current assets decreased in the financial year from EUR 254.7 million in the previous year to EUR 240.5 million. Current assets therefore accounted for 52.0% of total assets as at December 31, 2023, compared to 53.1% at the end of 2022. The reduction in current assets is mainly due to the decrease in inventories from EUR 122.2 million in the previous year to EUR 118.1 million in 2023. This reduction is due to the decrease in orders for materials and the increased depreciation of old materials. Furthermore, current assets decreased from EUR 14.4 million in the previous year to EUR 8.0 million due to the decline in cash and cash equivalents.

Equity increased from EUR 278.0 million at the end of 2022 to EUR 278.4 million at the end of 2023 and amounted to 60.2 % of total assets after 57.9 % at the previous year's reporting date.

Liabilities decreased from EUR 164.8 million in the previous year to EUR 147.4 million. This change is mainly the result of the reduction in liabilities to banks by EUR 59.1 million due to repayments of utilized credit lines and the reduction in trade payables by EUR 23.1 million. These reductions were offset by the EUR 74.3 million increase in liabilities to affiliated companies. Provisions fell from EUR 26.0 million in the previous year to EUR 22.0 million at the end of 2023. Deferred income increased from EUR 11.1 million in the previous year to EUR 14.7 million in 2023 .

Capital expenditures

Investments in the 2023 financial year totaled EUR 59.8 million (previous year: EUR 96.2 million). Of this amount, EUR 49.1 million (previous year: EUR 55.6 million) was invested in intangible assets, EUR 10.5 million (previous year: EUR 8.4 million) in property, plant and equipment and EUR 0.3 million in financial assets (previous year: EUR 32.2 million). The investments in intangible assets result in particular from the addition of internally generated industrial property rights and similar rights and assets. Investments in property, plant and equipment primarily include expenditure on measuring and testing equipment and for the Terafactory, which was under construction until the middle of the year. The investments in financial assets relate to loans to affiliated companies.

Liquidity

The development of cash and cash equivalents analyses as follows:

(in millions of EUR)	**2023**	**2022**
Operating cash flow	108.6	17.7
Investing cash flow	(56.2)	(78.9)
Financing cash flow	(58.8)	13.2
Net change in cash and cash equivalents	**(6.4)**	**(47.9)**
Cash and cash equivalents at the beginning of the year	14.4	62.3
Cash and cash equivalents at the end of the year	**8.0**	**14.4**

During 2023 and 2022, the company was able to meet all payment obligations.

Cash and cash equivalents of EUR 8.0 million as at December 31, 2023 and EUR 14.4 million as at December 31, 2022 were largely denominated in euros and US dollars. The reduction of EUR 6.4 million resulted in particular from the increase in payment obligations. As a result, net liquidity decreased compared to the previous year. Net liquidity is calculated by subtracting total financial liabilities from cash and cash equivalents. Total financial liabilities comprise current financial liabilities to a new factoring agreement concluded as at December 19, 2023 as well as current and non-current financial receivables and liabilities to Adtran Holdings Inc. receivables from the control and profit and loss transfer agreement.

Financing

Liabilities to banks decreased from EUR 63.3 million at the end of 2022 to EUR 4.2 million at the end of 2023 and consisted exclusively of a current financial liability in connection with a new factoring agreement concluded in 2023, whereby the main credit risks were not transferred. Existing credit lines with banks were fully repaid and replaced by financing via Adtran Holdings, Inc. in the maximum amount of USD 75 million, which can be drawn down and repaid at any time. At the end of 2023, USD 57.5 million (EUR 52.8 million) had been drawn down from this credit line. It is reported under non-current financial liabilities due to the contractual term until 2028. There is also a short-term intercompany loan with Adva Network Security GmbH in the amount of EUR 5.0 million as at the end of 2023.

Dividend payments

In 2023 there were no dividend payments for 2022 (prior year: nil for 2021). Adtran Networks SE does not plan to pay out a dividend for 2023.

Summary: Net assets and financial position

Despite the significant improvement in operating cash flow, cash at banks and in hand decreased. Nevertheless, Adtran Networks SE's net assets and financial position remains stable in 2023.

Events after the balance sheet date

There were no events after the balance sheet date that have a material impact on the net assets and financial position or the results of operations.

Disclosures under takeover law in accordance with Section § 289a (1) HGB and Section § 315a (1) HGB

Share capital and shareholder structure

On December 31, 2023, Adtran Networks SE had issued 52,054,500 no-par value bearer shares (December 31, 2022: 52,004,500). The common shares entitle the holder to vote at the Annual Shareholders' Meeting and to receive dividends in case of a distribution. No restrictions are attached to the common shares. No other class of shares had been issued during the reporting period.

At year-end 2023, Adtran Holdings, Inc., located at 901 Explorer Blvd NW, Huntsville, AL 35806, United States, held a total of 33,957,538 shares or 65.32 %* of the share capital of Adtran Networks SE (at year-end 2022: 33,957,538 representing 65.3 % of the share capital).Samson Rock Event Driven Master Fund Limited held a total of 5,100,000 shares representing 10.02 % including instruments. No other shareholder has filed with the company to hold more than 10 % of the company's shares outstanding on December 31, 2023. Further details on share capital and shareholder structure are disclosed in note (20) to the consolidated financial statements.

* Capital shares refer to the total number of shares held in relation to the share capital as of December 31, 2023.

Restriction of voting rights and share transfers

At year-end 2023, the management board of Adtran Networks SE had no knowledge of any restrictions related to voting rights or share transfers.

Appointment and dismissal of management board members

The appointment and dismissal of members of the management board of Adtran Networks SE follows the direction of the German Stock Corporation Act (Aktiengesetz, AktG), the German SE Implementation Act (SE-Ausführungsgesetz, SEAG) as well as the provisions in section 6 of the company's current articles of association (last amended by the supervisory board resolution on January 2, 2024, which was registered with the commercial register on February 13, 2024). According to these articles, in principle the supervisory board appoints the members of the management board and does so for a maximum period of five years. However, it is the company's practice to appoint the members of the management board for two years only. Repeated appointment is possible. According to the company's statutes, the management board of Adtran Networks SE shall regularly consist of two individuals and the supervisory board shall have the right to determine and appoint a higher number of individuals. If the management board consists of more than one individual, the supervisory board may appoint one member of the management board chief executive officer or speaker of the management board and another member his or her deputy. The supervisory board may revoke an already effective appointment for important reasons. Scott St. John resigned as member of the management board effective January 21, 2023. Christoph Glingener has resigned as the chairman of the management board with effect June 30, 2023. Thomas Richard Stanton was appointed new chairman of the management board with effect from July 1, 2023 until December 31, 2024. Until January 21, 2023, Adtran Networks SE's management board consisted of Christoph Glingener (chief executive officer), Ulrich Dopfer (chief financial officer) and Scott St. John (chief marketing & sales officer). Since January 22, 2023 until June 30, 2023, the Management Board of Adtran Networks SE consisted of Christoph Glingener (Chief Executive Officer) and Ulrich Dopfer (Chief Financial Officer). Since July 1, 2023 the management board consists of Thomas Richard Stanton (chief executive officer), Christoph Glingener (chief technology officer) and Ulrich Dopfer (chief financial officer).

Changes to articles of association

Following article 9 SE Regulation in conjunction with section 51 SEAG, amendments to the articles of association of Adtran Networks SE are made pursuant to section 179 German Stock Corporation Act (Aktiengesetz, AktG) in conjunction with Section 133 German Stock Corporation Act (Aktiengesetz, AktG) considering a 75 % majority vote, as well as the provisions in section 4 para. 6 and section 13 para. 3 of the current articles of association of the company (last amended by the supervisory board resolution on January 2, 2024, which was registered with the commercial register on February 13, 2024). Accordingly, in principle any changes to the articles of association other than purely formal amendments need to be resolved by the shareholders' meeting. However, the shareholders' meeting has authorized the supervisory board to change the version of the articles of association in accordance with capital increases from authorized capital and conditional capital.

Issuance and buy-back of shares

The rights of the management board to issue new shares are regulated in section 4 paragraphs 4 and 5k of the articles of association (last amended by the supervisory board resolution on January 2, 2024 registered with the commercial register on February 13, 2024), of Adtran Networks SE. According to Adtran Networks SE's current articles of association, the management board is authorized with approval of the supervisory board to increase the capital stock by up to 24,965,477 new shares from authorized capital, amounting to a total of EUR 24,965,477 against cash or contribution in kind with possible exclusion of subscription rights (authorized capital 2019/I). As of December 31, 2023, the authorized capital amounted to EUR 24,965,477, so that at that time the management board was capable of issuing up to 24,965,477 shares, equating to 49.75 % of total shares outstanding. In addition, as of December 31, 2022, a conditional capital of EUR 4,100,469 was recorded in the commercial register (conditional capital 2011/I). The conditional capital can only be used for granting stock option rights to members of the management board, to employees of the company and to management and employees of affiliated companies. The conditional capital increase is put into effect only if and insofar as the holders of the option rights exercise these rights. 50,000 new shares were already created in 2023 as a result of the exercise of stock options but will only be registered in the trade register after the balance sheet date. Thus, the number of shares that can be issued by the management board from the conditional capital is reduced to 3,491,861.

At year-end 2023, the management board was authorized to buy back up to a total of 10.0 % of the existing share capital at the time of resolution by the Annual Shareholders' Meeting or – if this value is lower – at the time the authorization is exercised. This right was granted to the management board until May 21, 2024, by a resolution of the shareholders' meeting on May 22, 2019. Shares bought back may be used for all legally permitted purposes, in particular as consideration for the acquisition of companies, parts of companies or investments in companies, for issuing stock to employees of the company or affiliated companies, for serving share subscription rights from the company's stock option plans, and for redeeming the shares pursuant to the legal provisions.

Takeover bid-driven change of control provisions

At the end of 2023, Adtran Networks SE did not have any financial liabilities with banks and which could be impacted by a change of control.

Definition of aims and terms for the rise of the women portion in the supervisory board, the management board and in both leadership levels below the management board

Following the entry into force of the "Law on Equal Participation of Women and Men in Management Positions in the Private and Public Sector" (FüPoG), the supervisory board of Adtran Networks SE has last set on November 15, 2017, that a women's portion of 33.33 % in the supervisory board shall be maintained until March 31, 2021, and a women's portion of 0% in the management board until December 31, 2021. As of March 31, and December 31, 2021, these shares have been realized.

On February 23, 2021, the supervisory board gave itself a new competence profile for the period that followed. This stipulates that the three-person supervisory board should consist of at least one woman and at least one man until the end of the annual general meeting that decides on the discharge in the 2024 financial year. The status quo of 33.33 % women has thus been updated.

On March 8, 2023, the supervisory board resolved to maintain the current status (0 % proportion of woman) within the management board until December 31, 2023. For setting a target of 0 % the following justification is given: Following the public takeover bid in 2022, a domination and profit and loss transfer agreement with Adtran Holdings, Inc. as the controlling company was entered in the commercial register in January 2023 and thus became effective. The Supervisory Board would like to wait and see how the ongoing integration process develops before adjusting the target figure. In any case, the supervisory board will pay attention to diversity when making new appointments. However, achieving the desired higher proportion of women on the management board continues to be made more difficult by the lower proportion of women with the seniority required for a position on the management board in the professions relevant to the company's business area.

Following the entry into force of the FüPoG, the management board of Adtran Networks SE had set an 8 % women's share for the first management level and a 30 % women’s share for the second management level below the management board; both to be achieved by June 30, 2017. As of June 30, 2017, the women’s portion on the first management level has been 7 %, and 32 % on the second management level, exceeding the self-imposed target on the second management level, but slightly missing the self-imposed target of the first management level. This was due to an in-house change of a reporting line that lifted a male executive from the second to the first management level; besides that, the management structure and team remained unchanged at both management levels. For the following period, Adtran Networks SE's management board has set a target of 7 % for the women's share on the first level of management and of 30 % on the second level of management below management board, both to be achieved until June 30, 2022. As of June 30, 2022, the women’s portion on the first management level has been 9 %, and 37 % on the second management level. This exceeded the self-set target on the first and second management level.

At the end of June 2022, the Management Board of Adtran Networks SE set a 13 % women’s share for the first management level below the Management Board and a 35.2 % women’s share for the second management level below the Management; both to be achieved by June 30, 2027. As of December 31, 2022, the women’s portion on the first management level has been 10 % and 37 % on the second management level. As of December 31, 2023, the women’s portion on the first management level has been 21 % and 36 % on the second management level. This exceeded the self-set target on the first and second management level.

Combined separate non-financial report

Adtran Networks has chosen to prepare a combined separate non-financial report, which can be found in Part 2 of the Sustainability Report. This part is prepared in accordance with the requirements of Section 315b (3) of the German Commercial Code (HGB) and is hereinafter simplified as the “non-financial report”. This non-financial report is prepared in accordance with § 15c in conjunction with 289c to 289e of the German Commercial Code (HGB) and the EU Taxonomy Regulation[25] and has been subjected to a voluntary limited assurance engagement in accordance with ISAE 3000 (Revised) by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) regarding the relevant legal requirements. The non-financial report will be published on the sustainability page in the About Us section of the website www.adva.com at the same time as the annual report on April 18, 2024.

[25] The EU Taxonomy Regulation (EU) 2020/852 is an EU regulation that defines criteria whether business activities are eligible for being rated as ecologically sustainable. It affects companies that are obliged to publish a non-financial report.

Employees

On December 31, 2023, Adtran Networks had 2,101 employees worldwide, including 36 apprentices (prior year: 2,014 including 27 apprentices).

On average, Adtran Networks had 2,069 employees during 2023, up from 2,004 in 2022. Furthermore, there were 44 and 36 temporary employees working for Adtran Networks at year-end 2023 and 2022, respectively.

Personnel expenses in the group increased from EUR 218.2 million in 2022 to EUR 221.9 million in 2023, representing 30.6 % and 36.2 % of revenues, respectively.

On December 31, 2023, Adtran Networks SE had 609 employees, thereof 44 apprentices (prior year: 613 employees, thereof 36 apprentices). This corresponds to a total reduction of 4 employees or 0.7 % compared to the previous year.

The breakdown of employees of Adtran Networks SE by functional area is as follows:

	2023	2022	Change
Purchasing and production	—	—	—
Sales, marketing and service	—	—	—
Management and administration	—	—	—
Research and development	—	—	—
Apprentices	—	—	—
Total employees	**1**	**1**	**—**

Personnel expenses in the Adtran Networks SE increased from EUR 60.1 million in 2022 to EUR 60.2 million in 2023, representing 14.1% of revenues in 2023 compared to 11,8 % in 2022.

The employee compensation packages comprise fixed and, at some hierarchy levels, variable elements and stock units. These compensation packages enable employees to participate appropriately in the success of the group, and support employee retention, while at the same time rewarding individual efforts, teamwork, innovation and productivity. Furthermore, they should also enable individual achievements to be recognized as well as promote team spirit, innovation and productivity. In addition, employees are regularly honored for special achievements and extraordinary commitment through the group's Spot Award program. In addition, the group 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 group offers different types of continuing education programs based on employee development needs. These needs are identified, documented, and reviewed semi-annually, within an electronic performance appraisal and competency management system.

Within Adtran Networks, all relevant local regulations for health and safety in the workplace are complied with, and in some countries are regularly monitored by independent engineering offices for safety in the workplace.

Adtran Networks is committed to the creation of a workplace free of discrimination and harassment. The group recruits, hires, trains and promotes individuals at all job levels without regard to race, religion, ancestry, sexual orientation, marital status, national origin, age, gender and physical or mental disability. Adtran Networks is committed to a fair and equitable workplace where everyone is a respected and valued member of the team. The group's core values (ONE – Ownership, Nurture and Excellence) guide employees and managers in all business activities.

An efficient employee representation without trade union ties is in place on a global basis, reflecting the international employee base and overall orientation of the group.

An efficient employee representation without trade union ties (with a global Works Council - ADVA Works Council and a local Works Council - Betriebsrat at the Meiningen site in Germany) is in place on a global basis, reflecting the international employee base and overall orientation of the group.

At its main production and development facility in Meiningen, Germany, Adtran Networks currently provides 44 apprenticeship positions, whereof 27 lead to professions as electronics technician for equipment and systems, industrial management assistant, electronics technician for information and telecommunications systems and as warehouse logistics expert. In Meiningen, Germany, the company is among the most recognized apprenticeship providers for industrial electronics professions in its region for a long time. In addition, Adtran Networks offers a dual study program in Germany which combines a university degree with firmly integrated practical on-the-job work experience in the company. This enables the students to put the knowledge they have learned into practice in a direct context. Currently 17 students are trained within this program.

Risk and opportunity report

Adtran Networks' future development offers a broad variety of opportunities. It is however also subject to risks, which in certain cases could endanger the group's continued existence. The management board has implemented a comprehensive risk management and internal control system that enables the detection of risks in a timely manner and allows the group to take corrective action and to benefit from identified opportunities. An integral aspect of the group's strategy is its ability to anticipate developments in the marketplace and future customer needs. Special emphasis is given to product development, the quality of the group's products and the validation, selection and oversight of key business partners.

Risk management system

Since Adtran Networks was founded as Adtran Networks SE in 1994, its business has become more diversified. The group markets its products and solutions in part via a variety of distribution partners but has become less dependent on these partners over the years due to continued investment in a direct distribution model in core geographies. Beyond focusing on enhancing revenue and profit predictability, a comprehensive risk management system has been established which is coordinated by the Internal Audit and Risk Management function.

Being a globally operating company, Adtran Networks implemented its risk management system on the basis of applicable laws and regulations and by considering common international standards and best practices such as the COSO[26] framework and the ISO[27] 31000 standard. Additionally, it integrates supporting management systems such as especially the group's compliance management. The management board nevertheless recognizes that a risk management system cannot in all cases prevent the occurrence of events that may cause material damage to the group.

Adtran Networks' strategic goals are set by the parent company, Adtran Holdings. They build the basis for Adtran Networks' risk management system and are organized into four areas: people and culture, growth and profitability, operational efficiency and portfolio and innovation. The strategic goals are reviewed and updated on a yearly basis and constitute the basis for Adtran Holdings' annually updated three year business plan. Adtran Networks' three year business plan is a subset of, and forms an integral part, of Adtran Holdings' three year plan. It is defined by the executive management team of Adtran Networks and reviewed by the supervisory board. Each of the strategic goals is defined in detail and then broken down into specific departmental and individual targets. The strategic goals are traced to each employee so that every individual can focus and be evaluated on the own performance and contribution to Adtran Networks' overall success.

Adtran Networks measures the accomplishment of its strategic goals against revenues, pro forma EBIT and net cash as well as the non-financial criterion of customer satisfaction measured by the net promoter score. These metrics represent the key performance indicators. The Adtran Holdings management board sets target values for all four metrics for the year to come and measures actual values against the target values: revenues, pro forma EBIT and net cash on a monthly basis and the net promoter score on an annual basis. Corrective action is taken quickly should a deviation from the plan occur or be reasonably predicted to occur. This information is summarized and communicated to the management board in monthly, quarterly and yearly reports. Key performance measures on the Adtran Networks' level are revenues, pro forma EBIT and net cash. All of these metrics are measured monthly, quarterly and yearly. The results are presented to, and discussed by the Adtran Networks supervisory board.

Budgets are reviewed on Adtran Holdings level on a monthly basis and adjustments are made if necessary. The Adtran Holdings' accounting, controlling and treasury departments provide to the executive management of Adtran Holdings globally consolidated reports on available cash funds and the development of margins and current assets (e.g., inventories and receivables) on a quarterly basis. These reports also include budgeted, forecasted and actual revenues and expenditures. On the level of Adtran Networks budgets are reviewed quarterly; outcomes of these reviews are reported to the supervisory board. The structure and content of these reports is continuously adapted to the most current requirements.

Adtran Holdings regularly monitors the creditworthiness of its customers, including customers of Adtran Networks, and updates credit limits as needed. Material expenditures and investments must be approved in advance through an electronic purchase order system. In conjunction with continuously updated revenue and cash forecasts, a detailed monthly preview of the anticipated group development within the next three to twelve months is put together and communicated to the management board. Moreover, the group's accounting, controlling and legal departments review potential legal and litigation risks on a quarterly basis in order to obtain a reliable estimate of the potential loss, considering all relevant information and expectations. Adtran Networks' executive management discusses all significant business transactions with the supervisory board and obtains its approval if necessary.

In order to ensure observance of all applicable laws and regulations and to support the group's ongoing growth and internationalization, Adtran Holdings' executive management implemented a compliance management system which applies to,

[26] Five major accounting organizations formed a group known as COSO (Committee of Sponsoring Organizations of the Treadway Commission) to provide guidance on evaluating internal control. They issued this guidance as the COSO Internal Control Framework.
[27] ISO is an organization that defines and publishes internationally valid standards. Several of the ISO standards are relevant to Adtran Networks, including 9001 (quality management), 14001 (environmental management system), 22301 (business continuity management), 31000 (risk management) and 50001 (energy management).

and integrates, Adtran Networks. Key compliance measures include a code of conduct, a range of group-wide policies, the training of employees and the active encouragement to report suspected incidents of non-compliance and to seek support in case of uncertainties or questions.

All implemented measures and processes of the risk management system as well as of the compliance management system are continuously reviewed and improved.

Adtran Networks differentiates between two main categories of risks and opportunities – those considered major and those considered non-material. A risk or opportunity is considered major if its expected net impact on the group's pro forma EBIT is or exceeds EUR 3 million in terms of Adtran Networks' three-year business plan. If not attributable to the pro forma EBIT, Adtran Networks' net income is used as reference. The expected net impact is calculated by multiplying the potential net impact of a particular risk or opportunity with its net likelihood of occurrence. As a result of the integration and harmonization of the risk management systems in all entities of the Adtran Group the assessment of long-term non-financial risks and opportunities is not performed any longer.

For each major risk, the group assigns a dedicated risk owner who is responsible for defining and implementing an adequate and effective response for risk mitigation. Adherence with this process is monitored by Adtran Networks' internal audit and risk management function which conducts structured reviews with each risk owner according to a defined schedule and at a minimum once per quarter. Should any such major risk materialize, the assigned risk owner has the responsibility to immediately report this to the executive management. Independent of specific risk ownership, all employees of Adtran Networks are compelled to escalate additional material risk items directly and informally to Adtran Networks' internal audit and risk management function and the chief financial officer.

Based on the outlined analytical tools and processes, Adtran Networks ranked 16 risks as major risks at the end of 2023 all of which are financial risks (end of 2022: 16), which are discussed in detail below.

Adtran Networks' risks are aggregated by means of Monte Carlo simulations. The total risk is compared to Adtran Networks' risk bearing capacity to identify potentially existence-threatening accumulations of risks. If the aggregated risk exceeds the risk bearing capacity, the management board is immediately informed to initiate counter measures and to reduce the risk exposure.

Based on its review of the internal control and risk management system and the reporting of the internal audit function, the executive management of Adtran Networks is not aware of any circumstances that would speak against the adequacy and effectiveness of these systems[28].

The risks and opportunities of Adtran Networks essentially correspond to those of the Adtran Networks group. In addition to the risks listed here, there is also a risk with regards to the fluctuation of income from investments and the recoverability of shares in affiliated companies. Adtran Networks does not consider these risks to be material.

[28] The disclosures in this paragraph are so-called non-management report disclosures as defined in the basis of preparation section of this combined management report.

Major risks 2024-2026

1 Inability to perform new customer product introductions/homologations

2 Geopolitical risks (Geopolitical and trade)

3 Global economic slowdown (Macroeconomic risks)

4 Uncompetitive product(s) due to delayed release(s)

5 Bribery and compliance violations by intermediaries

6 Financial risk

7 Risk of operational supply gaps caused by interrupted supply chains

8 Excessive or obsolete inventory

9 Uncompetitive product due to technological disruption (actualized)

10 Data breach or network/service outage occur due to a security issue in deployed products

11 Inability to retain the talent with the competencies required to meet key objectives

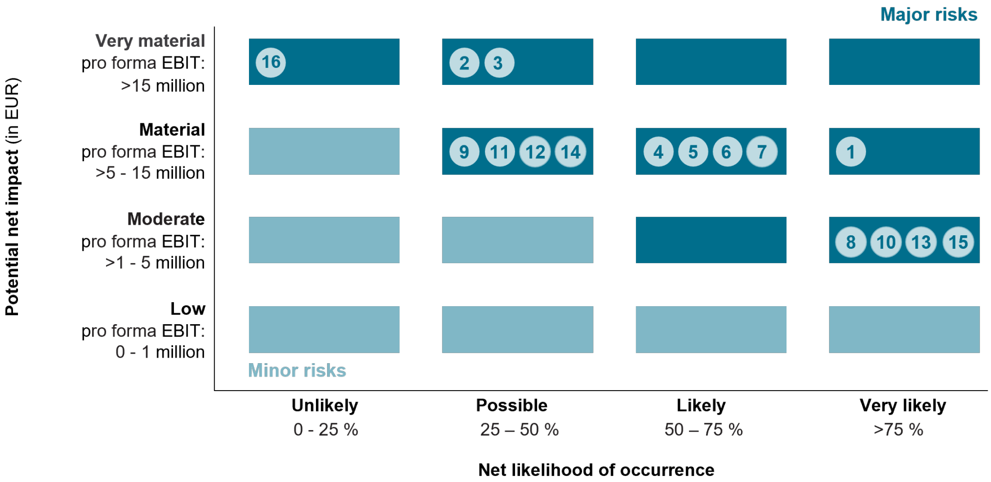
12 Uncompetitive product cost

13 Harassment or discrimination claims or proceedings

14 New legal requirements and over-regulation

15 Cyber-risks

16 Unsatisfying Product Quality (unsatisfying supplier and manufacturing quality)



Growth and profitability risks

Macroeconomic risks (possible; very material)

As an international player, Adtran Networks is exposed to the economic cycles of many countries and territories of the world. Economic downturns may lead to a reduced demand for telecommunication equipment and, as a consequence, may lead to a reduction of revenues and margins. In the years 2021 to 2022 many national economies recovered from the Covid pandemic and many industries saw continuously strong demands which could not be satisfied by existing capacities. Due to the partially massive demand overhangs, and fueled by other factors such as the Ukraine war, prices increased on large scale leading to record-high inflation rates. In many countries raw material prices and energy costs doubled or tripled leading to high additional expenses for private and business customers. Central banks were and are combating inflation with their usual sets of tools, most importantly by increasing the prime rates which resulted in a substantial increase of loan interest rates. The high interest rates paired with a great level of uncertainty about the future development of businesses, changes in labor markets, political decisions and private incomes led to a significant decrease in private and business consumption. While the economic decline and the particular pressure on the telecommunications market is factored in, in our 2024 operating plan, the magnitude of the decline might exceed the assumed scale.

Geopolitical risks (possible; very material)

This risk encapsulates the potential negative impacts on global and regional markets due to geopolitical tensions, trade disputes, and political instabilities. These factors contribute to an unpredictable business environment, affecting supply chains, market access, and overall economic stability. The global business operations of Adtran Networks are being threatened by conflicts or rising tensions between countries which could lead to sanctions, trade embargoes, or military actions, impacting global trade relations. Among the risk factors are changes in government, policy unpredictability, or internal conflicts within countries that can affect Adtran Networks business operations and market conditions, wars and armed conflicts between countries (such as the continuing Russian invasion of Ukraine) and activities of terrorist organizations (which led to the Israel-Hamas armed conflict). Consequences of this risk realization could be incarnated in difficulties in sourcing materials, increased costs, and delays in production and delivery, restrictions on market entry, increased tariffs, and non-tariff barriers affecting competitiveness and profitability and shifts in consumer preferences and demands due to economic uncertainty or nationalistic sentiments. The executive management of Adtran Networks chose to adopt the following mitigation strategies: reducing when possible the dependency on a single country or region for supplies, adapting business strategies to quickly respond to changing market conditions and continuously monitoring the geopolitical landscape to anticipate and prepare for changes.

Financial risks
(likely; material)

This risk pertains to the potential failure in effectively managing and executing key financial processes. This includes: transacting with customers, closing financial books, accurately reporting financial results, complying with various regulatory standards (SEC, BaFin, US GAAP, and IFRS), supporting financial audits. The inability to perform these functions can lead to material weaknesses in financial reporting, resulting in significant financial and reputational damage to Adtran Networks. To mitigate this risk management implemented the following: establishing, monitoring and regularly updating financial management systems and controls, process of continuously monitoring compliance with relevant regulations and standards, clear communication pathways between departments involved in financial processes. In addition, financial management ensures that financial staff are well-trained and up-to-date with current regulations and standards. Periodic risk assessments and internal audits are conducted to identify and address potential weaknesses in financial processes and controls. As part of the Adtran group and with the parent company being stock-listed in the US, Adtran Networks is obliged to maintain SOX controls. These controls, introduced in 2023, further develop and formalize the portfolio and complement the existing set of controls.

New legal requirements and over-regulation
(possible; material)

Due to the expansion to new markets and the globalization of business operations, Adtran Networks faces potential challenges and liabilities of changing and partially exuberant regulatory environments. The group's business is subjected to risk factors such as: new laws or amendments to existing regulations, evolving industry standards, growing public and governmental scrutiny on business practices (e.g., data privacy, environmental impact, and ethical conduct). Adtran Networks responses to these threats by engaging the following strategies: developing a robust compliance framework adaptable to various regulatory environments, educating employees about regulatory requirements and the importance of compliance, keeping abreast of changes in legislation and industry standards, involving experts for consultations and for ensuring understanding of compliance with applicable regulations, integrating regulatory compliance considerations into strategic planning and business decision-making.

Portfolio and innovation risks

Inability to perform new customer product introductions / homologations
(very likely; material)

For a telecommunications equipment and software producer, the introduction of new products to customers is pivotal for sustaining competitiveness, driving revenue growth and maintaining a technological leadership position in the industry. Should Adtran Networks be unable to solve internal factors such as limited resources, missing features, the inability to react fast enough and to adapt to external factors like changing market demands, evolving regulatory and security requirements and increased competition, the group's development could be impacted negatively. Since some of the group's competitors operate in a broader market and have considerably more resources available due to their greater size, Adtran Networks must continue to focus its efforts on investing in research and development to support customer homologation, ensuring that product quality meets both internal standards and external regulatory requirements and keeping abreast of market trends and customer needs to align product development. In addition, the group has implemented the Issue Tracker. This contrivance is being used by Technical staff and Quality Management Team to track high priority issues, align on status and correctness of the chosen approach. Another tool utilized by an internal integrated business unit is quarterly business reviews (QBR) on which integrated metrics are being analyzed. Adtran Networks also makes special emphasis on improved customer-specific testing and stays updated with changing regulations and ensuring compliance to facilitate smooth homologation.

Uncompetitive products due to technological disruption
(possible; material)

Adtran Networks' products or services may become uncompetitive as a result of technological advancements and innovations in the market. Technological disruption often leads to appearance on a market of new, more efficient, or more appealing products, which can quickly make existing offerings of Adtran Networks obsolete or less desirable. This risk may realize due to the following internal factors: wrong product strategy, inefficiencies in product development, inadequate resource allocation, poor project management, or technical challenges. External factors that may cause products or services to become uncompetitive are among others: market shifts, regulatory hurdles and the dependency on external partners and suppliers. The risk of a potential technological disruption is remediated by continuous reviews of market and product requirements, implementing efficient product development processes to minimize delays, incorporating risk assessment in the planning stage to foresee and mitigate potential causes of delay, ensuring effective communication and coordination among different departments and external partners and by having backup plans for potential setbacks in the product development lifecycle.

Uncompetitive product cost
(possible; material)

Adtran Networks achieves cost advantages through its ability to scale economically and through the optimization of product design. The loss of competitive product cost would drastically reduce the group's success in winning new business and would have a negative effect on gross and operating margins. The significant pricing pressure for innovative connectivity solutions must be met strategically by improving processes, controls and technology while maintaining adequate R&D budgets, as well as operationally by achieving cost leadership in sourcing product components. A dedicated team identifies competitive price and cost targets for new products, monitors product cost changes throughout the development process and negotiates, tracks and forecasts product and related component costs. The achievement of the annual cost reduction targets for sourcing components is tracked by quarterly status reports. The establishment of parallel production lines in different territories to mitigate geopolitical and supply chain risks leads to an increase in capital expenditures and operational cost. Adtran Networks diligently assesses the advantages and disadvantages of second sources and parallel production lines versus the additional cost incurred.

Uncompetitive product(s) due to delayed release(s)
(likely; material)

High competition and rapid technological change are the decisive characteristics of the market for innovative connectivity solutions for cloud and mobile services. Continuous success not only requires the identification of innovative solutions for future network and customer requirements by maintaining cost leadership, but to also release such innovations at the projected time as delays may undermine their competitiveness. As a result, Adtran Networks implemented a joint development and operations organization (DevOps[1]) clustered into technology value streams to maximize effectiveness and break up barriers. All value streams operate according to one common tool-supported development process.

Operational efficiency risks

Operational supply gaps caused by interrupted supply chains
(likely; material)

Adtran Networks sources product components either based on forecasts or upon receipt of a customer purchase order. Any shortage in the required material can have a significant negative impact on the group's performance. This may be caused by natural disasters which are expected to occur in higher frequency and at larger scales due to the climate change, pandemics, political conflicts, or specific problems of a supplier. The availability of critical components is centrally planned, monitored and controlled for all the manufacturing sites for a six months' period. Adtran Networks is monitoring the supply situation very closely and is taking actions dependent on changing market conditions.

Cyber risks
(very likely; moderate)

The integrity, confidentiality and availability of our information systems and data is key for the functioning of our business processes and consequently for the company's success. Cyber-attacks against organizations are increasing worldwide in both, quantity and quality, and attackers are more frequently targeting midsize companies like Adtran Networks. Cybersecurity studies of 2023 also indicate that manufacturing is one of the most targeted industries which resulted in 447 compromised organizations from this area publicly exposed on leak sites. The same studies show that Germany continues to be one of the countries most impacted by extortion attempts. In the Ransomware and Extortion report of 2023 by Unit 42 Germany is named 3rd after USA and UK with 129 extortion attempts during the year.
Cyber-crimes are committed by a wide range of perpetrators ranging from single hackers to professional organizations partially operating on behalf of national governments. The motives for cyber-attacks are similarly wide ranging from ransom extortion to industrial espionage and sabotage. Preventing from, and combating cyber threats is a never-ending challenge which in Adtran Networks is accomplished by a series of measures. These include among others the continuous monitoring of the information security risk landscape, making staff aware for cyber threats through adequate trainings, fast patch management, restrictive access right management, a centralized information technology function which enforces rigid and global security policies, regular review of the information technology disaster recovery plan and incident management as well as network, system and application monitoring, strong security measures, including encryption and multi-factor authentication.
Although information security measures are continuously improved and adapted to combat new threat profiles, there is no guarantee that the measures will prevent Adtran Networks from cyber-crimes.

Data breach or network/service outages due to a security issue in deployed products
(very likely; moderate)

This risk involves the possibility of a data breach or a disruption in network or service operations due to security vulnerabilities in products that Adtran Networks has deployed. This can include software, hardware, or online services. Such incidents can lead to unauthorized access to sensitive data, loss of data integrity, and interruption in essential services. Data breach or network/service outages which occur as a result of a security issue in deployed products may lead to a loss of customer's trust if seen as negligence and could result in claims for compensation. Roadmap commitments might get missed as fixing a severe security issue could absorb R&D resources for a significant time. New shipments might get on hold until the security issue is fixed.

Among the risk factors are important factors such as software and hardware vulnerabilities, inadequate security measures, advanced cyber attacks and third party risks. The impact of incidents could be significant, including customers' service disruption, loss of sensitive data, financial losses, erosion of customers' confidence.

The Management of Adtran Networks included various mitigation strategies to control this risk: proper internal secure product development standards (SPLC – secure product life-cycle) are in use, as well as adequate product security incidents response teams (PSIRT) for all products. Adtran Networks utilizes regular security audits and assessments: thorough security reviews of products to identify and address vulnerabilities. Robust security protocols are engaged for implementing strong security measures, including encryption and multi-factor authentication. Continuous monitoring and incident response planning is being performed: Adtran Networks established systems for continuous monitoring and having a well-defined incident response plan. Employees are being educated on security best practices and the importance of compliance. Vendor and third-party management processes are: ensuring that third-party components and services meet security standards. Monitoring and reporting: implementing systems for ongoing monitoring of security threats and vulnerabilities, and regularly reporting on security status and incidents.

Excessive or obsolete inventory
(very likely; moderate)

Adtran Networks normally purchases components based on customer orders or forecasts. However, in some situations such as during the semiconductor crisis, or if lead times of single components heavily exceed standard lead times, Adtran Networks may opt on buying components on stock in order to reduce throughput times and customer lead times. Pre-purchasing materials for products without firm orders bears the risk that customers will not demand relevant products. Pre-ordered materials reserved for a certain customer project is often reusable in other customer projects (standard components). Some components, however, cannot be used in any other customer project (non-standard components). Adtran Networks tries to reduce the pre-purchasing of non-standard materials to a minimum in order to limit the obsolescence risk. Despite our close alignments with customers, careful material demand analyses and other means to limit inventory risks, there is a residual risk that components on stock exceed customer demands or cannot be used in any customer project and cannot be resold to other market players, or can be sold, but at a price below the purchasing cost.

Unsatisfying supplier and manufacturing quality
(unlikely; very material)

Adtran Networks' product quality is significantly influenced by its suppliers and contract manufacturers. Failure of a single part may cause the whole system to be dysfunctional. Early detection of component as well as production deficiencies is thus critical for the group's success. Deteriorating quality levels could not only lead to delays in installation, return of products or cancellation of orders, but also to penalties and lawsuits, contract terminations and liability claims. Preventive actions to avoid quality deterioration include 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 of key suppliers and all manufacturers.

People and culture risks

Compliance violations by intermediaries
(likely; material)

Adtran Networks' markets its products and solutions in part via a variety of distribution partners due to required economies of scale, local (legal) requirements and in order to benefit from existing contractual as well as personal relationships and post-sale support organizations and capabilities. While the group's ability to control the partners' activities are limited, compliance violations by intermediaries may, under specific circumstances, be attributed to Adtran Networks. For mitigation, Adtran Networks implemented robust risk-based due diligence procedures including upfront vetting of new intermediaries and periodic reviews and updates. In addition, Adtran Networks' sales agreements contain clauses in which the intermediaries guarantee compliance with the rules. Existing commission-based compensation is tightly controlled and new contracts are avoided where possible.

Inability to retain the talent with the competencies required to meet key objectives
(possible; material)

The digital transformation continues at a rapid pace and has led to a permanent shortage of skilled workers within the technology industry. While particularly intense in developed countries, competition for talent is fierce all over the globe. As a result, the group is continuously challenged to retain and nurture its employees in order not to lose their knowledge, skills and relationships required to develop, sell and maintain the group's innovative products and solutions. The merger of Adtran Networks and Adtran means a special challenge as organizational changes by nature lead to uncertainty and fears among employees. Moreover, the combination of two corporations also means the merger of their cultures. An additional stress factor is the extra work caused by the integration of systems and processes. All of the aforementioned factors may cumulate and lead to the internal resignation, or the leaving, of employees. The acquisition of new personnel is also hampered temporarily as some people prefer a stable work environment to a changing environment. On the other hand, organizational change is attractive to highly motivated and creative talents. Covid-19 changed the way employees work. Many of them, especially in the software and IT sector can opt for remote jobs which increases the attrition risk. Adtran Networks tries to meet employees' expectations by offering them a variety of flexible work models.

Harassment or discrimination claims or proceedings
(very likely; moderate)

This risk involves the potential for claims or legal proceedings to be brought against Adtran Networks due to allegations of harassment or discrimination in the workplace. Such claims can arise from employees, customers, or other stakeholders and can be based on gender, race, age, sexual orientation, religion, disability, or other protected characteristics. Among factors, which may provoke this risk coming into being are lack of clear, communicated policies against harassment and discrimination, a workplace culture that tolerates or overlooks inappropriate behavior, insufficient efforts to promote diversity, equity, and inclusion in the workplace. The executive management of the Adtran Group remedies this risk by developing and enforcing clear policies against harassment and discrimination, establishing confidential and accessible channels for reporting incidents, promoting the reporting of any type of violations in its Code of Conduct ("speak up culture") and by conducting impartial investigations in case of incidents.

Minor and financial risks

Beyond the discussed 16 major risks, there is a broad range of minor risks that can also have a negative impact on Adtran Networks. These uncertainties include financial risks as well as the risk of customer defaults, balance sheet risks such as the impairment of intangible assets, and changes in interest rate levels. Uncertainties also exist with regards to the timing of carrier investment cycles and to distribution partnerships, to legal risks pertaining to potential claims under product and warranty liabilities as well as patent rights, to secure confidentiality of personal and business sensitive data. Risks relating to energy supply and risks from possible acquisitions are also worth mentioning. The management board of Adtran Networks does not consider any of these risks or other uncertainties to have a major impact on the group in case of their occurrence.

Changes to the overall risk situation and classified major risks in 2023

The composition of Adtran Networks' major risks is partly different than the prior year. "Loss of key customers or channel partners", "market pricing pressure", "wrong product strategy" and "exchange rate risks" are no longer considered major risks. New major risks added to the Company's risk portfolio are: "Inability to perform new customer product introductions/ homologations", "geopolitical risks", "data breach or network/service outage occur due to a security issue in deployed products", "financial risks" due to Adtran Networks since 2023 has to comply with SEC rules. "Harassment or discrimination claims or proceedings" and "New legal requirements and over-regulation" were also new risks added into the list of the major threats. In line with Adtran Group's risk management approach, non-financial risks are no longer identified and assessed. Nine out of 16 of the most major risks are the same, as listed in the company's risk & opportunity report 2022.

Opportunity identification

The identification of opportunities is largely identical to the processes, tools and concepts as described in the “risk management system” section above. The annual definition of the group’s opportunities is supported by the management board, which has regular discussions with key customers and industry thought leaders in order to identify new opportunities and technological trends. Throughout the group, agile processes maximize the group’s ability to take advantage of newly identified trends. Current major opportunities are as follows:

Market share gains in Europe
(very likely; very material)

The Covid-19 pandemic and global supply chain issues have highlighted the economic importance of digitization and a secure communications infrastructure and has prompted a rethink in politics and business. The use of device technology with questionable origin is now viewed very negatively, and many European countries/companies are actively working to reduce the dependence on large Chinese network equipment suppliers in their networks. Additionally, global supply chain disruptions, during the recent global silicon shortage, were causing network operators in Europe to re-look at the vendor landscape, which often results in a desire for them to partner with vendors who are “local” on a regional basis. For Adtran Networks, as an established company headquartered in Europe, these new dynamics create additional opportunities. The expansion of the company’s capabilities in Germany through the opening of the new Terafactory in Meiningen further strengthens Adtran networks’ credibility as a local supplier.

Portfolio cross-selling
(very likely; very material)

Adtran Networks operates in three distinct technology areas: open optical transmission technology, programmable cloud access solutions and high-precision network synchronization. In addition to a variety of opportunities in each of these technology areas, the group sees a high likelihood of cross-selling these solutions into Adtran Inc.’s customer base. The combined company has started to educate traditional broadband-only customers of Adtran and identified significant cross-selling opportunities.

Additional demand for packet-based access solutions with increasing software content
(likely; material)

With the introduction of 5G and the emergence of edge computing solutions, CSPs are redefining their strategies in the network access space. Adtran Networks has invested heavily in expanding its cloud access portfolio to help CSPs find new revenue streams. As a result, Adtran Networks has the world’s most comprehensive portfolio of fiber-based Ethernet access and aggregation solutions that enable industry-leading data transmission. In addition to FSP[29] 150 hardware, Adtran Networks’ Ensemble software portfolio provides virtual network solutions that enable CSPs to offer new services to enterprise IT departments. NFV enables CSPs to quickly create and deploy new services anywhere in the world. Driven by close partnerships with some of the world’s leading enterprise IT suppliers, the group sees the potential for numerous new customer wins and a higher share of software revenue in this area.

Additional demand for services through use of machine learning (ML) and artificial intelligence (AI)
(likely; material)

More and more customers are using the company’s range of services in the planning, construction and commissioning of their networks. In addition, there are contracts for the maintenance and protection of networks already in operation. Adtran Networks is continuously expanding its service catalog, for example using ML and AI to offer new services for improved network resilience. The pandemic and geopolitical tensions have increased the demand for data-driven insights and services to automate and protect networks. Further significant revenue increases are possible.

Information technology security
(very likely; material)

Large enterprises and government agencies are concerned about the security of their data and business processes and are therefore building new data backup and data storage solutions, which in turn require transmission technology to link sites. In addition, the EU’s General Data Protection Regulation (GDPR), which came into force in 2019, is leading to increased data protection requirements for all companies operating in Europe. A few years ago, network technology primarily had to provide cost-effective bandwidth. Today, the focus is increasingly on security. This inevitably has an impact on the technical realization of the cloud as well as customers’ selection of manufacturers. Adtran Networks is the one remaining European specialist in optical transmission technology and a reliable partner for thousands of companies. Its ConnectGuard™[30] security portfolio offers customers comprehensive protection in different network scenarios and brings numerous competitive advantages. With the founding of Adva Network Security (ANS) in 2022, the company showed its strong commitment to this highly relevant market. As

[29] The Fiber Service Platform is Adtran Networks comprehensive product portfolio that provides carriers and enterprises with innovative connectivity solutions for access, metro and long-haul networks.
[30] Brand name for Adtran Networks’ encryption technology, implemented in many of the company’s products.

a German company with strong visibility and presence with data center and network operators worldwide, ANS anticipates a positive market environment with additional opportunities in security-related infrastructure.

New markets for synchronization solutions (very likely; material)

In addition to mobile network operators' increasing demands for high-precision synchronization solutions, Adtran Networks' Oscilloquartz technology is gaining traction in other applications. Most notably, securing critical infrastructure against GNSS[31] failures is becoming increasingly important, opening opportunities with government agencies and operators of mission-critical infrastructure. Also relevant are the synchronization of global databases of internet content providers, the accuracy of timestamps for financial trading, the synchronization of power grids with distributed generation, time distribution in digital infrastructure deployment, and the synchronization of media networks. All these applications offer additional opportunities for this technology area.

Expansion of addressable market and share gains through decarbonization (possible; material)

According to current knowledge, climate change and the resulting threats to our planet are largely due to high CO_2 emissions worldwide. The transport of goods and people has played a not insignificant role in this. In addition, of course, the energy consumption of communication networks is also increasing as data traffic grows. This creates opportunities for Adtran Networks: on the one hand, the lockdown of the past two years demonstrated that numerous economic processes, as well as processes of daily life, often function with significantly less mobility. Home office and video conferencing have significantly reduced the need for business travel in many industries. The aspect of “green thanks to ICT” – i.e., more resource-efficient processes through the use of communications technology to replace the need for trips and flights – is stimulating network expansions in many countries of the world and having a positive effect on the growth of Adtran Networks' addressable market. On the other hand, Adtran Networks' activities in the area of sustainability are highly advanced. These are described in detail in the separately published sustainability report. The company's efforts to sustainably reduce the energy efficiency of its products as well as its own operational processes have been recognized by numerous organizations and go well beyond the commitment of direct competitors, especially from the US and the Far East. The company's innovation can reduce the energy consumption of communications networks. Adtran Networks' customers, some of whom have set very ambitious climate targets, benefit from these improvements and appreciate the company's efforts. Now that some countries even require CO_2 levies to be paid, this also creates an economic advantage for network operators and, in turn, a competitive advantage for Adtran Networks.

Additional sales opportunities from ongoing market consolidation (possible; material)

Vendor consolidation in optical transmission technology will continue. In 2019, an Israeli competitor of the group was acquired by a US technology company. This acquisition further reduced the number of independent companies focusing on optical network solutions. Adtran Networks is the remaining European specialist in this technology and has built a positive reputation among its customer base. Through the acquisition of Overture in 2016 and the acquisition of MRV in 2017, the group itself has contributed to the ongoing industry consolidation and gained strength and relevance. A consolidated competitive landscape can lead to slower market price erosion and new opportunities for Adtran Networks to win additional customers as a primary or secondary supplier. The merger with Adtran strengthens Adtran Networks' market power and generates additional economies of scale. A consolidated competitive landscape is expected to slow down price erosion and may open new opportunities to win new customers as main or second supplier.

Vertical integration for cost reductions in product components and new markets (likely; moderate)

Adtran Networks is increasingly investing in the development of optoelectronic components. These investments enable greater vertical integration and greater independence from suppliers. On the one hand, this leads to an improved cost structure for certain functions in Adtran Networks' systems. In addition, Adtran Networks benefits from an expansion of the total addressable market (TAM). The pluggable transceiver modules of the successful MicroMux family as well as the 100ZR module developed jointly with Coherent (formerly II-VI) will make an increasing contribution to consolidated revenues and margins in 2024 and beyond, with strong growth potential.

[31] GNSS refers to a constellation of satellites transmitting positioning and timing data from space. GNSS receivers determine their location by using that data. By definition, a GNSS provides global coverage.

Changes to the overall opportunity situation and the classified major opportunities in 2023

The company sees itself well positioned to take advantage of the great opportunities which include additional potential thanks to the merger with Adtran Holdings, Inc. in 2022. The efforts of the western developed countries to remove Huawei and ZTE equipment from their networks continue to provide new market opportunities in a consolidating market. Coupled with increasing demands driven by information security requirements, high-precision synchronization required by new customer groups as well as its new range of software and service offerings, Adtran Networks has a strong foundation for great performance.

Overall opportunity and risk assessment

Based on careful inspection of the group’s opportunity and risk profile at the time of the preparation of the combined management report, the management board of Adtran Networks believes that the group’s opportunities offset the risks. Adtran Networks overall balance between opportunities and risks is similar to the one at the time of the publication of the combined management report. The management board has not identified any risk which would endanger the going concern of the Adtran Networks group.

Internal controls related to financial reporting

The management board of Adtran Networks is responsible for establishing and maintaining an adequate system of internal controls. It has implemented an internal control system that enables the management board to ensure completeness, accuracy and reliability of financial reporting at group and legal entity level. When designing its internal control system, Adtran Networks used the COSO framework as a key reference and source of guidance. The internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting. No system of internal control over financial reporting, including one determined to be effective, may prevent or detect all misstatements.

Control environment

The control environment is the foundation of the internal control system in every organization. Adtran Networks fosters an environment of openness and integrity with a clear commitment to excellence, competence and the development of its employees. The group's leadership principles of integrity/honesty, decisiveness and respect are based on this philosophy, and the culture is reflected in the overall tone set by the management board. Adtran Networks has a clear organizational structure with well-defined authorities and responsibilities. The bodies charged with the governance and control of the group actively participate in the running and steering of the business. The business is managed on a global basis and run via functional areas. Financial steering of the group and financial stewardship for individual legal entities is handled by the chief financial officer, under the audit committee's guidance.

In 2023 due to the merger with Adtran, which was already listed on NASDAQ, Adtran Networks (ex-ADVA) had devoted considerable effort to ensure its consolidated operations meet the requirements set forth by the Sarbanes-Oxley Act (SOX). In 2023 the focus was on the implementation and testing of new internal controls designed to uphold the standards of financial reporting. Recognizing the importance of these controls in safeguarding the integrity of Adtran Networks financial information, management established a dedicated team to ensure SOX-compliance. This team conducted comprehensive evaluations to identify and mitigate potential risks for financial statements veracity, and performed work to ensure that internal controls over Adtran Networks consolidated financial statements are effective both by design and operationally. Through a combination of targeted control descriptions and training sessions, internal monitoring, and external consultants, Adtran Networks had created an internal control framework that, is focus on ensuring compliance with SOX requirements.

Following the initial year of SOX compliance implementation, the evaluation process has identified several internal controls as deficient. These findings highlight specific areas for enhancement within Adtran Networks' internal control system. In response, corrective measures are being formulated and implemented to address these deficiencies. The organization is focused on strengthening the effectiveness of internal controls and reinforcing compliance with SOX requirements. Improvement efforts are planned for the subsequent financial year, aiming to rectify the identified deficiencies and improve financial reporting framework.

Risk assessment

As part of the internal controls related to financial reporting, the risk assessment follows the process described in the "risk management system" section.

Control activities

At an individual entity level, Adtran Networks' larger and more complex business units use an integrated enterprise resource planning solution, which also serves as general ledger system. Information technology controls have been implemented to restrict user access, ensure proper authorization of changes to the system and efficient handling of user help desk requests. Specific processes are defined and applied for the following reporting cycles in these business units: cash reporting, revenue recognition, accounts payable, capitalization of development expenses and recognition of subsidies for research, inventory reporting, fixed assets, payroll and provisions. Adtran Networks carries out monthly analytical reviews and quarterly balance sheet reviews based on a four-eye principle between the local accounting and the consolidation functions.

For the consolidated financial statements, the balance sheet and income statement positions requiring a significant degree of judgment and estimation when being valued are determined and analyzed with the involvement of management. This is the case for impairment testing reviews (annual or when a triggering event occurs), capitalization of development projects (when the industrialization stage is reached) and tax reporting, specifically deferred taxes (quarterly). Adtran Networks additionally carries out monthly intercompany reconciliations as part of the consolidation process and analytical reviews of actual vs. expected results based on a four-eyes principle between the financial planning and the consolidation functions.

All business units follow a set of global accounting policies and reporting guidelines applying to the whole group. The financial statements preparation process is monitored globally via a calendar that is communicated to all involved parties on a monthly basis. Checklists are completed both in the individual business units and at the consolidation level to ensure completeness of all closing steps. Periodic reviews by group management are conducted to detect errors and omissions.

Information and communication tools

The internal control system at Adtran Networks is supported by tools to store and exchange information, enabling the management board to make informed business decisions about financial reports and disclosures. The following components ensure proper information and communication for financial reporting:

- Accounting systems for individual entities are matched to the degree of complexity of the business unit. For most entities, an integrated enterprise resource planning system, which also serves as general ledger system, is in place. All local accounts are mapped to the group chart of accounts, which is used group-wide.
- The group consolidation is supported by a database tool which is linked to the enterprise resource planning and financial planning systems via interfaces. The global financial planning system is used extensively in analyzing actual vs. expected results and thus monitoring the results of the consolidation.
- Global accounting policies for the more complex financial statement positions of the group and a group chart of accounts for all other positions are available. Accounting policies are updated regularly and are implemented only after a thorough internal review and training.

Internal monitoring

As part of the ongoing monitoring, the chief financial officer is informed about all material misstatements and control breakdowns at group and business unit level on a quarterly basis in the executive summary to the financial statements. The reporting of deficiencies follows the principles of open and transparent communication. Follow-up is ensured through regular meetings where corrective actions are presented.

Internal financial audit

Adtran Networks maintains an internal audit function to regularly assess financial processes and systems.

Based on an annual risk assessment, the internal audit function develops an audit plan proposal for the upcoming year. The proposed plan is presented to, aligned with, and finally ratified by the audit committee. The internal audit function performs internal audit reviews throughout the year according to the audit plan. Audit results are discussed with responsible managers. In case of identified process or system weaknesses, the internal audit function makes recommendations and improvement actions are defined and agreed with the responsible manager(s). The progress of these and their success in removing the identified weaknesses is reviewed by the audit function. The state of internal auditing is reported quarterly to the audit committee and includes feedback about the progress of audits performed versus the audit plan, about the results of terminated audit reviews and about improvements resulting from actions taken.

Outlook

The statements in this chapter apply to the Adtran Networks group as well as to Adtran Networks SE. Further details on the projected market environment, as well as the resulting opportunities, can be found in the “General economic and market conditions” section and in the “Business overview” section.

The year 2023 turned out to be much more difficult than initially expected. At the beginning of the year, the outlook for business development was still positive. The end of the pandemic and a significant improvement in the availability of semiconductors indicated a return to normality in the industry. Adtran Networks’ delivery capability significantly improved, additional costs associated with overcoming material shortages diminished, and global logistics operations largely returned to smooth functioning. However, the improved ability to deliver had a negative impact on customers’ ordering behavior. The larger network operators in particular had built up risk stocks in order to remain able to act in the event of a further deterioration in manufacturers’ ability to deliver. Once confidence in the ability to deliver had returned, these risk stocks were reduced and new orders were cut back, in some cases dramatically. The overall situation was exacerbated by high inflation and the associated rise in central bank interest rates. This increased the borrowing costs for network expansion, while the shortage of skilled workers and higher personnel costs also contributed to a noticeable slowdown in customer demand.

This complex mix of factors led to a reduction in annual sales to EUR 613.7 million. This decline of 13.8 % compared to the previous year was in line with the forecast range, which was adjusted during the year and assumed a reduction in the single-digit to low double-digit percentage range. The decline in sales had a negative impact on the company's profitability. Nevertheless, the company was able to impress with a pro forma EBIT margin of 6.5 %. In the annual forecast published for the 2023 financial year, the management board had initially expected a year-on-year increase in revenue in the high single-digit to low double-digit percentage range and a further increase in pro forma EBIT compared to the 2022 financial year. Even though the results in the second quarter were in line with the forecast expectations, the management board revised the outlook for the 2023 financial year in August. They projected that revenue would decline by a high single-digit to low double-digit percentage compared to the financial year 2022 and that the pro forma operating result in relation to revenue would be in the low single-digit percentage range.

Net debt amounted to EUR 42.4 million at the end of the 2023 financial year, compared to net debt of EUR 19.2 million in the previous year. This was below expectations of achieving a net liquidity position in the mid double-digit million range and is due in particular to the significantly weaker sales performance.

As for customer satisfaction, Adtran Networks uses the net promoter score (NPS) to track progress. With a score of 37.7 %, the company only just missed the high positive level of at least 40% targeted by the management board. Customer.guru (https://customer.guru/net-promoter-score) - a NPS survey and benchmarking tool - provides estimates for Adtran Networks' peer group. According to this portal, Adtran Networks' NPS remains very high on an international scale, even when compared across industries.

With a view to business development in 2024, the management board expects demand to remain weak until the third quarter. Many customers have not yet finished optimizing their inventories, which is having an impact on incoming orders. In addition, the ongoing tense political climate, the unpredictable trajectory of inflation, and relatively high interest rates are all making customers reluctant to invest. In the long term, however, the macro environment remains positive for Adtran Networks. Digitization has taken center stage in both politics and business, and the need for a secure and high-performance communications infrastructure has never been greater. We live in an era of mobile working, e-learning and video conferencing increasingly replacing face-to-face offices, classrooms and meeting rooms. Business travel and in-person meetings are being supplemented by virtual meetings, and a new hybrid form of communication has taken hold. The pandemic has highlighted the need to leverage new forms of human interaction, and digital solutions have ensured business continuity under challenging conditions. Communications networks have become the backbone of economies and are now considered a valuable strategic asset. This new mindset continues to drive demand for network technology and is supported by various government incentives and funding programs around the world.

With the investments of the past years, Adtran Networks has comprehensively prepared itself technologically for the transformation of networks with the aspects of cloud, mobility, 5G, automation and security. In addition to the high-quality performance features of optical data transmission, precise network synchronization technology and programmable cloud access solutions, the service portfolio also delivers increasing added value. Adtran Networks develops, produces and delivers communication technology for the digital future. According to estimates by industry analysts, the total addressable market for the company was around USD 10.8 billion[32] in 2023 and will grow to USD 12.1 billion by 2028, although the potential additional opportunities from the shift in demand from Asian (especially Huawei) to European manufacturers are not quantified here (see also chapter "Market, Target Groups and Growth Drivers").

[32] World market excluding China for Metro and Backbone WDM (Omdia, “Optical Networks Forecast”, published November 2023), Access Switching and Ethernet Demarcation, (Omdia: “Service Provider Switching and Routing Forecast”, October 2023) and network synchronization (Adtran Networks own estimates)

Against the backdrop of the aforementioned factors and considering the planning parameters, personnel and exchange rates, the executive board expects a further year-on-year decline in revenue of around 25 % in 2024. However, the executive board assumes that pro forma EBIT in 2024 can be maintained at a level comparable to 2023 due to the stringent opex adjustments. The company's aim is to rapidly reduce its debt and consistently adhere to the defined capital management targets described in Note (34) to the consolidated financial statements. For the financial year 2024, the executive board expects net debt in the low to mid-double-digit million range. No corresponding annual forecast is published at Adtran Holdings level.

The group will continue to selectively invest in product development, technology and revenue-generating opportunities. In addition, the management board expects, due to the continued focus on innovation, quality and service, that customer satisfaction measured by the net promoter score will once again reach a high, positive level of at least 35% in the current financial year. Actual results may differ materially from expectations if risks materialize or the underlying assumptions prove unrealistic. The major risks facing Adtran Networks are discussed in the “risk and opportunity report” section.

Declaration on corporate governance

Compliance with the rules of proper corporate governance is of great importance to Adtran Networks - it is the foundation for the group's success. According to section 289f and § 315d of the German Commercial Code (Handelsgesetzbuch, HGB) in connection with Principle 22 of the German Corporate Governance Code in the version dated April 28, 2022, Adtran Networks SE is obliged to publish a "declaration on corporate governance". Adtran Networks publishes the "declaration on corporate governance" on the corporate governance page in the About us / Investors section of its website www.adva.com. The remuneration report for the 2023 financial year and the auditor's report in accordance with Section 162 AktG, the applicable remuneration system in accordance with Section 87a (1) and (2) sentence 1 AktG and the most recent remuneration resolution in accordance with Section 113 (3) AktG are also publicly available there.

Meiningen, April 16, 2024

Thomas R. Stanton

Christoph Glingener   Ulrich Dopfer

Adtran Networks SE, Meiningen – Financial Statements for the Financial Year January 1 to December 31, 2023

Balance sheet on December 31, 2023

(in thousands of EUR)	Note	2023	2022
Assets			
A. Fixed Assets	(1)		
I. Intangible assets			
1. Self-produced industrial property rights and similar rights and assets, and licenses in such rights and assets	(2)	123,535	117,462
2. Purchased concessions, industrial property rights acquired for consideration and similar rights and assets	(3)	5,413	7,054
3. Goodwill		0	0
4. Advance Payments		1,799	782
		130,747	**125,298**
II. Property, plant and equipment			
1. Land, land rights and buildings, including buildings on third-party land		11,392	3,606
2. Plant and machinery		8,082	6,853
3. Other equipment, furniture and fixtures		671	695
4. Payments on account and assets under construction		1,715	6,533
		21,860	**17,687**
III. Financial assets			
1. Shares in affiliated companies	(4)	64,762	74,252
2. Loans to affiliated companies	(5)	1,800	5,106
3. Investments	(6)	0	0
		66,562	**79,358**
B. Current Assets			
I. Inventories			
1. Raw materials, consumables and supplies		25,829	37,711
2. Work in process		5,432	1,953
3. Finished goods and merchandise		37,954	42,308
4. Payments on account		48,908	40,266
		118,123	**122,238**
II. Receivables and other assets			
1. Trade accounts receivable	(7)	60,884	80,122
2. Receivables from affiliated companies	(8)	49,585	33,471
3. Other current assets	(9)	3,892	4,465
		114,361	**118,058**
III. Cash at banks and in hand		**8,040**	**14,412**
C. Prepaid expenses		**2,842**	**2,875**
Total assets		**462,535**	**479,926**

Balance sheet on December 31, 2023

(in thousands of EUR)	Note	2023	2022
Equity and liabilities			
A. Equity	(10)		
I. Subscribed capital		52,055	52,005
(Conditional capital EUR 3,491 thousand) (prior year: EUR 3,541 thousand)			
II. Capital reserve		46,335	46,039
III. Retained earnings			
Other retained earnings		2,551	2,551
IV. Accumulated profit		177,438	177,438
		278,379	**278,033**
B. Provisions			
1. Provisions for pension and similar obligations	(11)	998	949
2. Tax provisions	(12)	193	3,862
3. Other provisions	(13)	20,845	21,198
		22,036	**26,009**
C. Liabilities	(14)		
1. Liabilities to banks		4,151	63,280
2. Advance payments received		837	3,071
3. Trade accounts payable		21,017	44,142
4. Liabilities to affiliated companies	(8)	118,684	44,342
5. Other liabilities		2,707	9,925
thereof for taxes		*1,393*	*3,336*
thereof for social security		*185*	*234*
		147,396	**164,760**
D. Deferred income		**14,724**	**11,124**
E. Deferred tax liabilities	(15)	**—**	**—**
Total equity and liabilities		**462,535**	**479,926**

Income statement for the period from January 1 to December 31, 2023

(in thousands of EUR)	Note	2023	2022
1. Revenues	(16)	431,253	508,840
2. Cost of goods sold	(17), (18)	269,991	327,027
3. Gross profit		**161,262**	**181,813**
4. Selling and marketing expenses	(18)	41,083	33,827
5. General administrative expenses	(18)	24,744	39,223
6. Research and development expenses	(2), (18)	119,581	117,532
7. Other operating income	(19)	18,798	55,783
thereof currency translation		*13,917*	*26,278*
8. Other operating expenses	(20)	17,444	21,533
thereof currency translation		*17,413*	*20,921*
9. Operating income (EBIT)		**(22,792)**	**25,481**
10. Income from investments	(21)	10,854	0
thereof from affiliated companies		*10,854*	*0*
11. Income from other securities and loans classified as financial assets		96	434
thereof from affiliated companies		*96*	*434*
12. Other interest and similar income		43	34
thereof interest income from discounting		*43*	*34*
13. Amortization from financial asset	(22)	9490	0
14. Interest and similar expenses		2,222	786
thereof interest expenses from compounding		*0*	*0*
15. Tax expense (benefit) net	(23)	420	1,270
thereof deferred taxes		*0*	*0*
16. Result after taxes		**(23,931)**	**23,893**
17. Other tax expense (benefit), net		3	3
18. Income from loss transfer		23,934	—
19. Net profit for the year		**0**	**23,890**
20. Profit carried forward		177,438	153,548
21. Accumulated profit		**177,438**	**177,438**

Notes to the financial statements 2023

Preparation of the annual financial statements

The annual financial statements of Adtran Networks SE (hereinafter referred to as “the company”) for the financial year ended 2023 were prepared in accordance with the regulations of the German Commercial Code (Handelsgesetzbuch, HGB) and the SE regulations in connection with the German Corporation Law (AktG). The classification of income and expenses in the income statement is based on their function within the company. For the sake of clarity, when disclosure options exist, the appropriate disclosures are provided in the notes to the financial statements.

General information about the company

The company is a Societas Europaea located in Märzenquelle 1 - 3, 98617 Meiningen, Germany and is registered at the district court Jena under HRB number 508155.

Adtran Networks SE is classed as a large company in accordance with the Germany Commercial Code (HGB) § 267. The business year is equal to the calendar year. The financial statements for the year ended December 31, 2023 were authorized for issue in accordance with a resolution of the management board on April 16, 2024.

The company develops, manufactures and sells networking solutions for a modern telecommunication infrastructure. Its products are based on fiber-optic transmission technology combined with Ethernet functionality and intelligent software for network management and virtualization. Furthermore, the portfolio includes timing and synchronization solutions for networks.

Telecommunications service providers, private companies, universities and government agencies worldwide use the companies’s systems. Adtran Networks SE sells its product portfolio both directly and through an international network of distribution partners.

Accounting policies and valuation

Intangible and tangible assets

Intangible and tangible assets are recognized at acquisition or production costs, including incidental costs, less scheduled depreciation. Depreciation is based on a straight-line method pro rata temporis. Impairment charges are recognized in case of a permanent diminution in value.

Intangible assets with finite lives are amortized on a straight-line basis over the expected useful economic lives of the assets as follows:

- Goodwill 4,5 years
- Capitalized development projects 3 to 5 years
- Purchased technology 2 to 7 years
- Software and other intangible assets 3 to 7 years

Depreciation on property, plant and equipment is calculated over the estimated useful economic lives of the assets as follows:

- Buildings 20 to 39 years
- Technical equipment and machinery 3 to 4 years
- Factory and office equipment 3 to 10 years

Low-value assets will not be fully expensed in the year of acquisition. The option to expense costs immediately has not been used. Self-constructed tangible assets are capitalized at production costs including appropriate material and production overhead costs. General administrative expenses are not included in the production costs. Investment subsidies are deducted from the acquisition or production costs.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all the attached conditions will be met. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognized as a reduction of purchase costs and released as a reduction of amortization expense over the expected useful economic life of the related asset.

Research and development projects

Development expenses for new products are capitalized at their acquisition and production costs if the production of these products is likely to generate economic benefit for Adtran Networks SE.

Capitalized development expenses are included in the balance sheet position self-constructed industrial and similar rights and assets, and licenses in such rights and assets. In the event that the requirements for capitalization are not met the expenses are recognized in the income statement in the year they arise.

Capitalized development projects include all costs that can be directly assigned to the development process, including borrowing costs.

The straight-line method of amortization is used from the start of production through the estimated selling periods for the products developed (generally between three and five years).

Completed as well as ongoing development projects are tested for impairment on the balance sheet date or when there is an indication of potential impairment. Impairment losses are recognized if appropriate.

Research costs are expensed as incurred.

Financial assets

Shares in and loans to affiliated companies as well as investments are recognized at acquisition cost including transaction costs less impairment charges in case of a permanent diminution in value.

Inventories

Inventories are recognized at the lower of acquisition or production cost, including incidental costs and allowances, or at the market value or fair value. The cost of purchase is determined by the average method. Production costs include material costs, direct manufacturing costs, depreciation on production-related assets and necessary manufacturing overhead costs. General administrative expenses and interest expenses are not included in production costs.

Receivables and other assets

Receivables and other assets are in accordance with the strict lowest value principle and stated at nominal value, taking into consideration appropriate value adjustments for all identifiable risks. The bad debt allowance is calculated in accordance with the International Financial Reporting Standard (IFRS) 9. The relative default risk of the receivables from the payment history of the last three years is taken into account.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value.

Prepaid expenses

Prepaid expenses include payments recorded in the current reporting period that are related to a defined period after the balance sheet date.

Subscribed capital

Subscribed capital is recognized at nominal value.

Pensions and similar obligations

Pensions and similar obligations are actuarially measured using the projected unit credit method. Future obligations are measured and discounted at the net present value based on proportionately acquired pension rights known at the reporting date. Specified parameters for the future development are considered and affect the measurement of future benefits.

Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the balance sheet date.

Provisions

Provisions are made for all identifiable risks to an adequate extent considering the principles of commercial prudence and are recognized at the settlement amount. Other provisions with a remaining term of more than one year are discounted using the average interest rate of the last seven years.

Liabilities

Liabilities are stated at the settlement amount. The settlement amount of loans is the nominal value.

Deferred income

Deferred income is recognized for receipts reported in the current period as far as they represent income for a defined period after the reporting date.

Deferred tax

Deferred tax is provided using the liability method on temporary differences on the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences as well as for tax losses carried forward to the extent that it is probable that taxable profit will be available against which the deductible temporary differences respectively tax losses carried forward can be utilized.

The carrying amount of deferred tax assets is reviewed on each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted on the balance sheet date. Future changes in tax rates are recognized on the balance sheet date if their impact is materially certain as part of the tax legislation process.

Deferred tax assets and deferred tax liabilities are offset in the balance sheet. The Company does not make use of the capitalization option under Section 274 (1) S. 2 HGB.

Derivative financial instruments

Customary market instruments such as forward contracts are used to hedge currency risks.

A provision is recognized for pending loss transactions.

No financial instruments qualify for hedge accounting in the sense of § 254 HGB.

Revenues

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Product returns are estimated according to contractual obligations and past experiences and are recognized as a reduction of revenues.

Rendering of services

Revenues arising from the sale of services primarily derive from maintenance, installation services and training and are recognized when those services have been rendered. Installation services are recognized as revenue if the final installation has been approved by the customer. Generally, maintenance services are reported as deferred revenue and recognized as revenue straight-line over the contract period. Training is recognized as revenue immediately after supply of the service.

In arrangements with customers that include delivery of goods as well as rendering of services, the shipment of the goods is separated from the rendering of the services if the goods have a stand-alone value for the customer and the fair value of the service can be reliably determined. Both components of the transaction are measured at their proportionate fair value.

Discounts and rebates are deducted from revenues.

Cost of goods sold

Cost of goods sold comprises the costs incurred in the production and rendering of services. This item subsumes both the direct cost of materials and production directly assignable to a product, including the depreciation of production equipment, amortization of production-related intangible assets and write-downs on inventories. Cost of goods sold also includes changes to the warranty provision. Income from the reversal of write-downs on inventories reduces the cost of goods sold, which also includes amortization of purchased technologies and amortization of capitalized research and development projects.

License payments to companies within the Group relate to usage of intellectual property rights and are recognized in selling and marketing expenses.

Currency translation

Assets and liabilities are translated into EUR using the exchange rate at the time of acquisition. Non-current assets are translated as at the balance sheet date, taking into account the imparity principle.

Receivables, assets and liabilities are translated at the mean spot exchange rate on the balance sheet date.

Expenses and income from currency translation are included in the income statement as other operating expenses or income.

The relevant exchange rates are:

	Spot rate on Dec. 31., 2023
AUD	1.6263
BRL	5.3618
CAD	1.4642
CHF	0.9260
CNY	7.8509
GBP	0.8691
HKD	8.6314
ILS	3.9993
INR	91.9045
JPY	156.3300
PLN	4.3395
SEK	11.0960
SGD	1.4591
USD	1.1050

Notes and information on selected items of the annual financial Statements

(1) Fixed assets

The development of fixed assets from January 1 to December 31, 2023, is disclosed in the following schedule:

	Accumulated Historical cost						Accumulated depreciation				Net book values	
(in thousands of EUR)	Jan. 1, 2023	Additions	Investment funding	Disposals/ retirements	Reclassi- fications	Dec. 31, 2023	Jan. 1, 2023	Additions*	Disposals/ retirements	Dec. 31, 2023	Dec. 31, 2023	Dec. 31, 2022
I. Intangible assets												
1. Self-produced industrial property rights and similar rights and assets, and licenses in such rights and assets	347,122	** 45,820	—	—	—	392,942	229,661	39,746	—	269,407	123,535	117,462
2. Purchased concessions, industrial property rights acquired for consideration and similar rights and assets	66,873	1,734	—	4,339	549	64,817	59,820	3,923	4,339	59,404	5,413	7,054
3. Goodwill	284	—	—	—	—	284	284	—	—	284	—	—
4. Advance payments	782	1,509	—	—	(492)	1,799	—	—	—	—	1,799	782
	415,061	**49,063**	**—**	**4,339**	**57**	**459,842**	**289,765**	**43,669**	**4,339**	**329,095**	**130,747**	**125,298**
II. Property, plant and equipment												
1. Land, land rights and buildings including buildings on third-party land	11,181	4,081	1,575	0	5,779	19,466	7,576	498	—	8,074	11,392	3,606
2. Plant and machinery	48,005	4,309	103	740	680	52,151	41,153	3,573	657	44,069	8,082	6,853
3. Other equipment, furniture and fixtures	5,525	384	—	144	—	5,765	4,829	409	144	5,094	671	695
4. Payments on account and assets under construction	6,533	1,698	—	0	(7)	1,715	—	—	—	—	1,715	6,533
	71,244	**10,472**	**1,678**	**884**	**(57)**	**79,097**	**53,558**	**4,480**	**801**	**57,237**	**21,860**	**17,687**
III. Financial assets												
1. Shares in affiliated companies	76,183	—	—	—	—	76,183	1,931	9,490	—	11,421	64,762	74,252
2. Loans to affiliated companies	5,106	*** 255	—	3,561	—	1,800	—	—	—	—	1,800	5,106
3. Investments	1,374	—	—	—	—	1,374	1,374	—	—	1,374	—	—
	82,663	**255**	**—**	**3,561**		**79,357**	**3,305**	**9,490**	**—**	**12,795**	**66,562**	**79,358**
Total	**568,968**	**59,790**	**1,678**	**8,784**	**—**	**618,296**	**346,628**	**57,639**	**5,140**	**399,127**	**219,169**	**222,343**

*Thereof depreciation of additions EUR 6,726 thousand in period 2023.

**In 2023, borrowing costs of EUR 1,154 thousand (2022: EUR 486 thousand) related to development projects with an expected duration of more than twelve months were capitalized. Borrowing costs were capitalized applying the weighted average rate of the financial liabilities of 3.8 %. The additions include EUR 45,820 thousand of own capitalized development costs.

***Thereof EUR 255 thousand of additions and EUR 377 thousand of disposals from foreign currency valuation of loans issued in ILS and USD.

(2) Self-constructed industrial and similar rights and assets, and licenses in such rights and assets

The following table shows the total amount of research and development costs and the amount attributable to internally generated intangible assets, broken down into research and development costs.

(in thousands of EUR)	2023	2022
Research expenses	4,009	2,049
Development expenses	161,392	157,588
Research & Development expenses	**165,401**	**159,637**
Thereof capitalized development projects	(45,820)	(42,105)
Total research & development expenses in the income statement	**119,581**	**117,532**

The following overview reconciles the cumulative acquisition and production costs of internally generated industrial property rights and similar rights and assets.

(in thousands of EUR)	2023	2022
Self-generated industrial property rights and similar rights and assets as at 01 Jan.	**347,122**	**310,390**
Additions from capitalisation of development costs including capitalised interest on borrowings	45,820	42,105
Additions from other development services	—	12,518
Total additions for the year	**45,820**	**54,623**
Disposals	—	(17,891)
Self-generated industrial property rights and similar rights and assets as at 31 Dec.	**392,942**	**347,122**

(3) Purchased concessions, industrial property rights acquired for consideration and similar rights and assets

Net book values of purchased industrial and similar rights and assets and licenses in such rights and assets can be analyzed as follows:

(in thousands of EUR)	Dec. 31, 2023	Dec. 31, 2022
Customer Relationship MRV	1,649	3,082
Other Software licenses	2,626	1,043
Purchased technology MRV Israel	1,138	2,189
Purchased software technology Overture	—	—
Purchased technology MRV	—	740
Total	**5,413**	**7,054**

(4) Shares in affiliated companies

On December 31, 2023, Adtran Networks SE held directly or indirectly shares in 20 (December 31, 2022: 20) affiliated companies as follows:

(in thousands)		IFRS equity	IFRS net income/ (loss)	Share in equity owned directly	Share in equity owned indirectly
Adtran Networks North America, Inc., Norcross/Atlanta (Georgia), USA (Adtran Networks North America)	USD	93,709	11,569	— %	100 %
Adtran Networks (UK) Ltd., York, United Kingdom (Adtran Networks York)	GBP	15,849	1,623	100 %	— %
Oscilloquartz SA, Saint-Blaise, Switzerland (OSA Switzerland)	CHF	5,080	328	100 %	— %
Adtran Networks Spolka z o.o., Gdynia, Poland (Adtran Networks Poland)	PLN	64,849	4,759	100 %	— %
Adtran Networks Israel Ltd., Ra'anana/Tel Aviv, Israel (Adtran Networks Israel)	ILS	9,188	5,969	100 %	— %
ADVA Optical Networking (Shenzhen) Ltd., Shenzhen, China (ADVA Optical Networking Shenzhen)	CNY	51,150	6,891	100 %	— %
Oscilloquartz Finland Oy, Espoo, Finland (OSA Finland)	EUR	275	39	100 %	— %
ADVA IT Solutions Pvt. Ltd., Bangalore, India (ADVA IT Solutions)	INR	66,019	—	— %	100 %
ADVA Optical Networking Trading (Shenzhen) Ltd., Shenzhen, China (ADVA Optical Networking Trading)	USD	2,079	197	— %	100 %
Adtran Networks Singapore Pte. Ltd., Singapore (Adtran Networks Singapore)	SGD	2,116	156	100 %	— %
Adtran Networks Hong Kong Ltd., Hongkong, China (Adtran Networks Hongkong)	USD	1,204	141	— %	100 %
ADVA Optical Networking (India) Private Ltd., Gurgaon, India (ADVA Optical Networking India)	INR	249,976	52,514	1 %	99 %
ADVA Optical Networking Serviços Brazil Ltda., São Paulo, Brazil (ADVA Optical Networking São Paulo)	BRL	2,740	224	99 %	1 %
Adtran Networks Japan Co., Ltd., Tokyo, Japan (Adtran Networks Tokyo)	JPY	98,853	4,076	100 %	— %
Adtran Networks AB, Kista/Stockholm, Sweden (Adtran Networks Stockholm)	SEK	3,689	935	100 %	— %
ADVA NA Holdings Inc., Norcross/Atlanta (Georgia), USA (ADVA NA Holdings)	USD	60,711	(1)	100 %	— %
Adtran Networks Pty Ltd., Sydney (New South Wales), Australia (Adtran Networks Australia)	AUD	1,725	(44)	— %	100 %
Adtran Networks B.V., Hilversum, Netherlands (Adtran Networks Netherlands)	EUR	329	13	100 %	— %
Adtran Networks Canada Inc., Ottawa, Kanada (Adtran Networks Canada)	CAD	4,115	481	100 %	— %
Adva Network Security GmbH, Berlin, Germany (ANS)	EUR	40,400	8,133	100 %	— %

(5) Loans to affiliated companies

Loans to affiliated companies are due within one year.

The loans to affiliated companies can be analyzed as follows:

(in thousands of EUR)	2023	2022
Adtran Networks Israel Ltd. Ra'anana, Israel	1,800	2,663
Adtran Networks North America Inc. Norcross/Atlanta (Georgia), USA	0	2,443
Total on Dec. 31	**1,800**	**5,106**

(6) Investments

The fair value of the investment in Saguna Networks Ltd, Nesher, Israel, amounting to 7.1 % (previous year: 7.1 %) continued to be zero at year-end 2023. A review of the fair value did not reveal any need for an impairment reversal.

(7) Trade accounts receivable

Trade accounts receivable are non-interest-bearing and are due within 30 to 120 days, in general. For specific projects, other payment terms may be agreed.

Trade accounts receivable are due within one year.

Customer credit notes for volume discounts and similar reasons are offset from trade receivables if offsetting is mandatory.

(8) Receivables from and liabilities to affiliated companies

Receivables from affiliated companies consist of trade receivables in the amount of EUR 25,651 thousand (previous year: EUR 33,471 thousand). In 2023, receivables from affiliated companies include a loss absorption amount of EUR 23,934 thousand in accordance with the domination and profit and loss transfer agreement that became effective on January 16, 2023 through entry in the commercial register. The receivables from affiliated companies are due within one year.

Liabilities to affiliated companies of EUR 118,684 thousand (previous year: EUR 44,342 thousand) include trade payables of EUR 60,911 thousand, which are due within one year, a long term intercompany loan with Adtran Holdings Inc. of EUR 52,773 thousand and an intercompany loan with Adva Network Security GmbH of EUR 5,000 thousand.

(9) Other current assets

Other current assets recognized on the balance sheet are due within one year, with the exception of EUR 364 thousand (prior year: EUR 249 thousand) for rental deposits which are due within five years.

(10) Equity

Common stock and share capital

On December 31, 2023, Adtran Networks SE had issued 52,054,500 (prior year: 52,004,500) no par value bearer shares (hereinafter “common shares”), each representing a notional amount of share capital of EUR 1.00.

The common shares entitle the holder to vote at the annual general meeting and to receive dividends in case of a distribution. No restrictions are attached to the common shares.

Capital transactions

In connection with the exercise of stock options, 50,000 shares were issued to employees of the company and its affiliates out of conditional capital in 2023 (in 2022 in connection with the exercise of stock options 558,608 shares). The par value of EUR 50 thousand (prior year: EUR 559 thousand) was appropriated to share capital, whereas the premium resulting from the exercise of stock options of EUR 296 thousand (prior year: EUR 3,767 thousand) was recognized within capital reserve.

Authorized capital

According to the company's articles of association, the management board is authorized, subject to the consent of the supervisory board, to increase subscribed capital until May 21, 2024, once or in successive tranches by a maximum of EUR 24,965 thousand by issuing new common shares in return for cash or non-cash contributions (conditional capital 2019/I). Subject to the consent of the supervisory board, the management board is further authorized to decide whether to exclude stockholders' subscription rights. Stockholders' subscription rights can be excluded for capital increases for cash contributions as well as contributions in kind if during the term of this authorization and in exclusion of shareholder subscription rights, the shares issued against contributions in cash or in kind do not exceed 20 % of the share capital.

Conditional capital

The annual shareholder´s meeting on May 24, 2023 resolved no increase of conditional capital 2011/I.

Considering the above described capital transactions, the total conditional capital on December 31, 2023 amounts to EUR 3,491 thousand.

The changes in share capital, authorized and conditional capital are summarized below:

(in thousands of EUR)	Share capital	Authorized capital 2019/I	Conditional capital 2011/I
	52,005	**24,965**	**3,541**
Jan. 1, 2023	—	—	—
Stock options exercised	50	—	(50)
Dec. 31, 2023	**52,055**	**24,965**	**3,491**

Capital reserve

The capital reserve includes premium payments from the issuance of shares, as well as additional contributions to the company's equity associated with the exercise of stock options.

In total, 17,500 stock options were outstanding per December 31, 2023.

Premiums from outstanding stock options are not recognized in the capital reserve.

Retained earnings

As part of the first-time application of BilMoG, the deferred taxes resulting from the revaluation effects on January 1, 2010, amounting to EUR 2,551 thousand were recorded in other retained earnings.

Balance sheet profit

The balance sheet was prepared in consideration of the complete profit appropriation. The accumulated profit carried forward of EUR 177,438 thousand (prior year: EUR 153,548 thousand) and the net profit for 2023 of EUR 0 thousand (prior year: EUR 23,890 thousand) resulted in an accumulated profit of EUR 177,438 thousand (prior year: EUR 177,438 thousand) on December 31, 2023. The accumulated profit is to be carried forward in full to new account.

Restriction of dividend distribution

Profits from the capitalization of development projects less deferred tax liabilities as well as changes in interest rates applied to discount pension provisions are blocked for dividend distribution.

The following amounts are blocked:

(in thousands of EUR)	2023	2022
Net of capitalized development projects and its deferred tax liabilities	87,735	83,491
Change of the average interest rate from pension provisions*	0	34
Total profits blocked for dividend distribution	**87,735**	**83,525**

* Pursuant to the HGB, the valuation of pension obligations changed from seven to ten years according to the first sentences of Article 75 (6) EGHGB n.F. in conjunction with the first sentences of Article 253 (2) HGB n.F.

Voting rights

According to section 33 paragraph 1 and 2, section 38 paragraph 1 and section 40 of the German Securities Trading Law (Wertpapier-Handelsgesetz WpHG), the company published the following information on the homepage of the company:

Date of change in investment	Name of investment owner	Threshold limit	Share of voting rights
March 21, 2024	The Goldman Sachs Group, Inc., Wilmington, Delaware, USA	above 10 %	11.97 %
Feb. 07, 2024	UBS Group AG, Zürich, Switzerland	above 3%	2.84 %
Jan. 24, 2024	Morgan Stanley, Wilmington, Delaware, USA	below 3 %	2.97 %
Jan. 08, 2024	Raphael Kain	above 10 %	10.27 %
Nov. 28, 2023	Samson Rock Capital LLP, London, UK	above 10 %	10.02 %
Nov. 28, 2023	Samson Rock Event Driven Fund Limited, Grand Cayman, Cayman Islands	above 10 %	10.02 %
Oct, 26, 2023	John Adis	above 3%	3.19 %
Aug. 26, 2022	JPMorgan Chase & Co., Wilmington, Delaware, USA	below 3 %	2.99 %
Jul. 21, 2022	Janus Henderson Group Plc, St. Helier, Jersey, USA	below 3 %	1.61 %
Jul. 15, 2022	Dimensional Holdings Inc., Austin, Texas, USA	below 3 %	0.00 %
Jul. 15, 2022	DNB Asset Management AS, Oslo, Norway	below 3 %	0.00 %
Jul. 15, 2022	EGORA Ventures AG, Planegg, Germany	below 3 %	0.00 %
Jul. 15, 2022	Adtran Holdings, Inc., Wilmington, Delaware, USA	above 50 %	65.43 %
Jan. 26, 2022	Bank of America Corporation, Wilmington, Delaware, USA	above 3 %	3.66 %
Jan. 21, 2022	DWS Investment GmbH, Frankfurt, Germany	below 3 %	2.80 %
Jul. 19, 2021	Highclere International Investors Smaller Companies Fund, Westport, USA	below 3 %	2.80 %
Jun. 18, 2021	Teleios Global Opportunities Master Fund, Ltd. Grand Cayman, Cayman Islands	below 3 %	2.95 %
Jul. 20, 2020	DNB Asset Management S.A., Luxembourg, Luxembourg	below 3 %	2.99 %
Sep. 23, 2019	Duke University, Durham, North Carolina, USA	below 3 %	0.00 %
Jan. 17, 2019	Internationale Kapitalanlagegesellschaft mit beschränkter Haftung, Düsseldorf, Germany	below 3 %	2.86 %
May 2, 2017	Finanzministerium im Auftrag des norwegischen Staates, Oslo, Norway	above 3 %	3.19 %
Feb. 20, 2017	Deutsche Asset Management Investment GmbH, Frankfurt, Germany	below 3 %	2.95 %

(11) Provisions for pensions and similar obligations

The provision for pensions and similar obligations relate to termination benefit payments due to employees of the Italian branch office and are required due to local statutory regulations (Trattamento di fine rapporta, appr. TFR). This pension entitlement is comparable to a deferred compensation scheme and is based on the level of income and the number of service years. The annual contribution is 7.4 % of the employees' annual salary. The accrued sum yields an interest of 1.5 % plus 75 % of the local inflation rate. The calculation is based on the interest rate that results from an actual term of 8 years. For each eligible employee, the annual pro-rate entitlement is accrued during his service time.

At termination of the employment, the employee is entitled to receive the accrued sum. This applies in case of reaching the retirement age of currently 63 years as well as in case of early termination of the employment contract. Early payment of certain parts of the accrued sum is possible in case of specified conditions. In the event of death, payment of the accrued sum is made to the dependents.

Similar to defined benefit plans, the present value of the defined benefit obligations was calculated in accordance with international accounting standards (IFRS/IAS 19) using the projected unit credit method (PUC method). There are no separate assets to cover the pension obligations. This is a direct commitment by the company to the eligible employees.

The following parameters were applied to calculate the present value of the entitlement:

(in %)	Dec. 31, 2023	Dec. 31, 2022
Discount rate	1.40	1.75
Salary level trend	2.25	2.25
Fluctuation	0.00	0.00

No pension adjustments were taken into account when determining the present value and therefore no pension trend was applied. The biometric assumptions essential for the measurement of the pension obligations are RG 48 for life expectation and INPS FPDL Credito for invalidity.

The change in the present value of the pension obligation can be derived as follows:

(in thousands of EUR)	2023	2022
Present value of the obligation on Jan. 1	949	800
Interest expense	16	14
Current service cost	125	129
Disbursements to employees	(84)	(101)
Losses arising from changes in financial assumptions	30	6
Other changes	(38)	101
Present value of the obligation on Dec. 31	**998**	**949**

Changes in financial assumptions relate to the assumed discount rate and are included in interest and similar expenses. Due to the longer than expected sustained low interest rate environment, the average interest rate applicable for the valuation of pension obligations changed from seven to ten years according to the first sentences of Article 75 (6) EGHGB n.F. in conjunction with the first sentences of Article 253 (2) HGB n.F. since March 11, 2016. As a result, a difference of EUR 0 thousand (prior year: EUR 34 thousand) was calculated in the current year. This difference will not be recorded and is blocked for dividend distribution. Other changes mainly relate to changes in salaries and are reported as personnel expenses.

No provisions are included for indirect pension obligations to employees of the Swiss branch office. The deficit from unrecognized pension obligations according to article 28 section 2 EGHGB amounts to EUR 56 thousand (previous year: EUR 135 thousand).

(12) Tax provisions

Tax provisions of EUR 193 thousand (prior year: EUR 3,862 thousand) include expected tax payments due to fiscal authorities applying current tax rates and tax legislation.

(13) Other provisions

On financial year end, other provisions can be analyzed as follows:

(in thousands of EUR)	2023	2022
Personnel provisions	3,142	1,205
Invoices not yet received	12,839	15,389
Provision for tax audit	97	237
Vacation provisions	682	853
Warranty provisions	2,392	2,216
Derivative	507	590
Audit fees	1,186	708
Total on Dec. 31	**20,845**	**21,198**

(14) Liabilities

The maturity of the liabilities can be analyzed as follows:

(in thousands of EUR) on December 31, 2023	Total	Maturity within one year	more than one year	thereof between one and five years	thereof more than five years
Liabilities to banks	4,151	4,151	—	—	—
Advance payments received	837	837	—	—	—
Trade accounts payable	21,017	21,017	—	—	—
Payables to affiliated companies	118,684	65,911	52,773	52,773	—
Other liabilities	2,707	2,707	—	—	—
thereof taxes	*1,393*	*1,393*	—	—	—
thereof social security	*185*	*185*	—	—	—
Total liabilities	**147,396**	**89,623**	**57,773**	**57,773**	**—**

(in thousands of EUR) on December 31, 2022	Total	Maturity within one year	more than one year	thereof between one and five years	thereof more than five years
Liabilities to banks	63,280	63,210	70	70	—
Advance payments received	3,071	3,071	—	—	—
Trade accounts payable	44,142	44,142	—	—	—
Payables to affiliated companies	44,342	44,342	—	—	—
Other liabilities	9,925	9,925	—	—	—
thereof taxes	*3,336*	*3,336*	—	—	—
thereof social security	*234*	*234*	—	—	—
Total liabilities	**164,760**	**164,690**	**70**	**70**	**—**

Liabilities to banks include financial liabilities from a factoring agreement in the amount of EUR 4,151 thousand (previous year: EUR 6,780 thousand). Due to the legal assignment of the receivables, this amount is fully secured. The trade receivables sold under this contract continue to be accounted for Adtran Networks SE, as the material default risk is not transferred despite the sale until the receivables are settled.

Other liabilities as at 31 December 2023 mainly consist of EUR 296 thousand (previous year: EUR 5,387 thousand) for bonus payments to employees and members of the Executive Board, EUR 490 thousand (previous year: EUR 2 thousand) for liabilities from licensing agreements, EUR 1,393 thousand (previous year: EUR 3,336 thousand) for withheld taxes and liabilities from funded research and development projects of EUR 334 thousand (previous year: EUR 966 thousand).

(15) Deferred taxes

Deferred taxes are recognized based on the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. When calculating deferred taxes, a combined tax rate of 28.98 % was applied.

Balance sheet position	Deferred tax category
Self-produced industrial property rights and similar rights and assets, and licenses in such rights and assets	passive
Purchased concessions, industrial property rights acquired for consideration and similar rights and assets	active
Goodwill	active
Loans to affiliated companies	passive
Inventories	passive
Trade accounts receivables and receivables from affiliated companies	active
Other Provisions	active
Trade accounts payable and liabilities to affiliated companies	passive
Passive deferred income (Advance payments received)	passive

The corporate income tax loss carry forward on December 31, 2023, amounts to EUR 181,876 thousand (prior year: EUR 154,206 thousand) and the trade income tax loss carry forward amounts to EUR 169,905 thousand (prior year: EUR 144,154 thousand).

In 2023, the company used a tax planning calculation for the next four years as a basis for determining the amount of usable loss carryforwards. Taking into account the expected loss offset within the next four years and the minimum taxation according to § 10d para. 2 EStG and § 10a GewStG, deferred tax assets of EUR 35,320 thousand (previous year: EUR 43,273 thousand) were determined on loss carryforwards that can be carried forward without limitation in the amount of EUR 243,850 thousand (previous year: EUR 298,360 thousand).

In total, deferred tax assets amount to EUR 39,938 thousand (previous year: EUR 47,792 thousand). Deferred tax liabilities amount to EUR 38,475 thousand (previous year: EUR 37,091 thousand). The offsetting of the above-mentioned deferred tax assets and liabilities results in an excess of deferred tax assets amounting to EUR 1,462 thousand. The company did not make use of the capitalization option according to § 274 para. 1 p. 2 HGB, so that after netting neither deferred tax assets nor deferred tax liabilities were recognized as of December 31, 2023 (previous year: EUR 0 thousand).

Income statement

(16) Revenues

In 2023 and 2022, revenues include EUR 40,802 thousand and EUR 42,269 thousand for services, respectively. The remaining revenues relate mainly to product sales.

Revenues by region, classified according to shipment destination, are as follows:

(in thousands of EUR)	2023	2022
Germany	183,623	158,074
Rest of Europe, Middle East and Africa	100,701	182,410
Americas	96,788	99,083
Asia-Pacific	50,141	69,273
Total	**431,253**	**508,840**

(17) Material expenses

Cost of goods sold includes the material expenses of the company, classified pursuant to section 275 paragraph 2, number 5 HGB. Material expenses totaled EUR 196,526 thousand in the financial year 2023 (prior year: EUR 253,062 thousand). Thereof, EUR 194,221 thousand (prior year: EUR 250,080 thousand) relate to expenses for raw materials and supplies and EUR 2,305 thousand (prior year: EUR 2,982 thousand) to costs of services.

(18) Personnel expenses

The company applies the cost of sale method, therefore personnel expenses are distributed according to the functional areas in cost of goods sold, selling and marketing, general and administrative as well as research and development expenses. In 2023, personnel expenses of the company, classified pursuant to section 275 paragraph 2 number 6 HGB, amounted to EUR 60,199 thousand (prior year: EUR 60,101 thousand). Thereof EUR 51,762 thousand (prior year: EUR 51,868 thousand) were related to salaries and wages and EUR 8,437 thousand (prior year: EUR 8,233 thousand) were related to costs for social security. For pension plans, EUR 324 thousand (prior year: EUR 223 thousand) were recognized in 2023.

(19) Other operating income

Other operating income can be analyzed as follows:

(in thousands of EUR)	2023	2022
Income from currency translation	13,917	26,278
Grants received for research projects	3,368	1,822
Other	1,513	27,683
Other operating income	**18,798**	**55,783**

Non-period income included in other operating income is shown in the following table:

(in thousands of EUR)	2023	2022
Income from release of provisions	23	2,511
Income from derecognition of liabilities	1,087	149
Income from release of specific provisions for trade receivables	—	—
Others	27	181
Income for other accounting periods	**1,137**	**2,841**

(20) Other operating expenses

Other operating expenses can be analyzed as follows:

(in thousands of EUR)	2023	2022
Expenses from currency translations	17,413	20,921
Other*	31	612
Other operating expenses	**17,444**	**21,533**

* Of this amount, EUR 14 thousand (previous year: EUR 76 thousand) was attributable to expenses unrelated to the accounting period in the 2023 financial year, which mainly resulted from derecognition of other assets.

(21) Income from investments

The income from investments of EUR 10,854 thousand (previous year: EUR 0 thousand) results from dividend distributions of Adtran Networks North America Inc. (Norcross/Atlanta, USA), Adtran Networks (UK) Ltd. (York, United Kingdom), Adtran Networks Singapore Pte. Ltd. (Singapore) and Oscilloquartz SA (Saint-Blaise, Switzerland)

(22) Amortization from financial assets

Certain Financial Assets have been deemed unrecognizable in the previous year and have been impaired as follows:

(in thousands of EUR)	2023	2022
Impairment of financial assets of affiliated companies	9,490	—
Amortization from financial assets	**9,490**	**—**

(23) Income taxes

The company's income tax comprises corporate income tax (Körperschaftssteuer), solidarity surcharge (Solidaritätszuschlag) and trade income tax (Gewerbesteuer). The tax result also includes foreign income taxes for the company's permanent establishments.

A reconciliation of income taxes based on the accounting profit and the expected domestic income tax rate of 28.98 % (prior year: 28.92 %) to effective income tax expense (benefit), net, is presented below:

(in thousands of EUR)	2023	2022
Result before income tax	**(23,514)**	**25,167**
Expected statutory taxes	**(6,815)**	**7,277**
Taxes from prior years	86	(141)
Tax-effects from unrecognized tax loss carryforwards	7,953	(62)
Change in valuation allowance on deferred tax assets on loss carryforwards	(1,372)	(4,920)
Adjustments of deferred taxes from prior years	0	(2)
Non-deductible expenses and tax-free income	107	(55)
Tax-free income from dividends	-3	0
Permanent deviations from the balance sheet comparison	3,042	(1,053)
Foreign tax expense	334	155
Effect form trade tax additions	255	91
Effect form trade tax reduction	(3)	(3)
Change in deferred taxes due to change in tax rate	(22)	(17)
Recognized income taxes	**420**	**1,270**
Effective tax rate	**(1.79)%**	**5.05 %**

In 2023, effects amounting to EUR 22 thousand occurred due to a change in the income tax rate (previous year: EUR 17 thousand). As in the previous year, the company did not make use of the capitalization option according to § 274 para. 1 p. 2 HGB. Therefore, neither deferred tax income nor deferred tax expense will arise in 2023.

Adtran Networks SE falls within the scope of the regulations on global minimum taxation ("Pillar 2"). The regulations on global minimum taxation came into force in Germany with effect from December 28, 2023 in the form of the Minimum Tax Act ("MinStG"). The MinStG applies for the first time to financial years beginning after December 30, 2023. Under the MinStG, a supplementary tax is payable for each jurisdiction that has an effective tax rate below 15%. As the MinStG does not yet apply to Adtran Networks SE for the 2023 financial year, there will be no tax burden from the MinStG for the 2023 financial year.

Adtran Networks SE is currently in the process of assessing the material impact of Pillar Two once the legislation comes into force. Due to the complexity of applying the legislation and determining it, the quantitative effects of the legislation coming into force cannot yet be reliably estimated.

Other information

(24) Other financial obligations and contingent liabilities

Other financial obligations can be analyzed as follows:

(in thousands of EUR)	Total	Maturity within one year	more than one year	thereof between one and five years	thereof more than five years
Obligations from rent agreements	5,672	669	5,003	2,141	2,862
Obligations from car leasing agreements	1,003	486	517	517	—
Purchase agreements	31,421	30,180	1,241	1,241	—
Other	—	—	—	—	—
Total on Dec. 31 2023	**38,096**	**31,335**	**6,761**	**3,899**	**2,862**

Unchanged from previous year the company granted an irrevocable guarantee of GBP 1,500 thousand (EUR 1,304 thousand) for liabilities of Adtran Networks (UK) Ltd., York, United Kingdom, another guarantee of EUR 2,184 thousand for liabilities of ADVA Optical Networking (India) Private Ltd., Gurgaon, India, a guarantee of SGD 1,000 thousand (EUR 1,459 thousand) for liabilities of Adtran Networks Singapore Pte. Ltd., Singapore, and a guarantee of CHF 1,000 thousand (EUR 926 thousand) for liabilities of Oscilloquartz SA, Saint-Blaise, Switzerland.

The use of these guarantees is unlikely, as all subsidiaries are controlled 100 % by Adtran Networks SE and appropriate countermeasures can be taken at an earlier stage.

(25) Derivative financial instruments

Forward rate agreements

To hedge the foreign exchange risk on future cash flows, the company entered into forward exchange contracts that mature in the first quarter of 2024. In 2023, unrealized losses for these foreign currency hedges amounted to EUR 507 thousand (previous year: EUR 590 thousand) which are recognized as other provision.

The forward exchange transactions that matured in the financial year resulted in a positive net result of EUR 864 thousand (previous year: EUR 1,867 thousand).

Declaration about fair value

The fair value and nominal value of these financial instruments on December 31 are as follows:

(in thousands of EUR)	Fair value 2023	Fair value 2022	Nominal value 2023	Nominal value 2022
Forward rate agreements	(507)	(590)	19,549	19,489

The nominal value is the accounting value from which payments are derived (underlying transaction). Since the nominal value itself is not at risk, it is the potential for changes in foreign exchange rates, interest rates and prices that is hedged.

The fair value reflects the credit risk of the instrument. Since the company only uses standard instruments for its hedges, the fair value is determined using market prices and is not netted against any contrary trend in the value of underlying transactions.

(26) Corporate bodies of Adtran Networks SE

Management board

	Resident in	External mandates
Thomas R. Stanton Chief executive officer (since July 1, 2023)	Gurley, Alabama, USA	Chairman of the Board and CEO of Adtran Holdings Member of the board of Directors of the Economic Development Partnership of Alabama (EDPA) Member of the board of Directors of Cadence Bank Member of the board of Directors of Huntsville Chamber of Commerce
Christoph Glingener Chief technology officer (Chief executive officer until June 30, 2023)	Jade, Germany	Member of the board of trustees of Fraunhofer Heinrich-Hertz-Institute, Berlin, Germany
Ulrich Dopfer Chief financial officer	Alpharetta, Georgia, USA	–
Scott St. John Chief marketing & sales officer (until January 21, 2023)	Raleigh, North Carolina, USA	–

Supervisory board

	Resident in	Occupation	External mandates
Eduard Scheiterer Chairman (since July 10, 2023)	Geretsried, Germany	Pensioner	–
Johanna Hey (Chairwoman until June, 30 2023)	Cologne, Germany	Professor for tax law, University of Cologne, Cologne, Germany	Member of the supervisory board of Gothaer Versicherungsbank VVaG, Cologne, Germany Member of the supervisory board of Gothaer Finanzholding AG, Cologne, Germany Chairwoman of the supervisory board of Cologne Executive School GmbH, Cologne, Germany Member of the supervisory board of Flossbach von Storch AG, Cologne, Germany Member of the Board of Directors of Adtran Holdings, Inc., Huntsville, AL, USA (until September 30, 2023)
Frank Fischer Vice Chairman	Duesseldorf, Germany	Lawyer and Tax Advisor	–
Heike Kratzenstein (since July 10, 2023)	Glonn, Germany	CEO Asmodee Holding GmbH	–

Compensation of the management board

The company's Management Board consisted of four members in the financial year and the comparative period. Two members of the Management Board were remunerated by the subsidiary Adtran Networks North America Inc, Norcross/Atlanta (Georgia), USA, and one member by Adtran Inc, USA.

The total remuneration of active and former members of the Executive Board in accordance with Section 314 para. 1 HGB for the 2023 and 2022 financial years amounts to EUR 10,246 thousand and EUR 3,961 thousand respectively; of this, total remuneration of EUR 447 thousand in 2023 relates to former members of the Executive Board in accordance with Section 314 para. 1 no. 6b HGB.

The fixed remuneration of EUR 1,803 thousand (previous year: EUR 1,063 thousand) includes non-performance-related basic remuneration and fringe benefits. In 2023, the variable remuneration of EUR 180 thousand relates to the bonus to a former member of the Management Board, which is recognized as a current liability as at 31 December 2023 (previous year: variable performance-related remuneration: EUR 1,454 thousand). For share-based remuneration, the fair value (market value) at the grant date in 2023 amounted to EUR 8,263 thousand (previous year: EUR 1,444 thousand).

No loans were granted to the members of the Executive Board in 2023 and 2022. As at December 31, 2023, there were no receivables from the members of the Executive Board (previous year: none).

The members and former members of the company's Management Board hold the options and other share-based remuneration instruments of Adtran Holdings, Inc. listed below.

Options		RSUs		Annual PSUs		3-year plan PSUs		Integration bonus PSUs	
2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
1,004,101	1,097,918	365,936	349,282	179,907	97,991	192,656	—	—	—

The management board received cash inflows of EUR 96 thousand from the exercise of stock options in 2023 (2022: EUR 1,562 thousand).

Compensation of the supervisory board

The total fixed remuneration due to the Supervisory Board for the financial years 2023 and 2022 amounts to EUR 234 thousand and EUR 226 thousand respectively.

The fixed compensation for the supervisory board of Adtran Networks SE is paid out in quarterly installments. The fixed compensation for Q4 2023 amounting to EUR 59 thousand was paid out in January 2024 and is included in other liabilities in the annual financial statements.

On December 31, 2023, no shares or stock options were held by members of the supervisory board (December 31, 2022: none).

(27) Employees

The company employed an average of 560 employees and 38 apprentices (prior year: 560 employees and 27 apprentices), divided into the following functional areas:

Employees per functional area	2023	2022
Purchasing and production	154	158
Sales, marketing and service	113	113
Management and administration	95	95
Research and development	198	194
Apprentices	38	27
Total	**598**	**587**

(28) Auditor's fees

The total fee for the auditor is broken down separately in the consolidated financial statements.

The other assurance services for the financial year include costs for the assurance of the combined separate non-financial report. In the previous year, in addition to the costs for the assurance of the combined separate non-financial report, this item also included costs in connection with assurance services as part of a business combination.

(29) Consolidated financial statements

The Company prepares consolidated financial statements for the smallest consolidated group of affiliated companies. These can be inspected at the Jena Local Court under HRB number 508155.

The Company's financial statements are also included in the consolidated financial statements of Adtran Holdings, Inc. with its registered office in Huntsville, Alabama, USA, which prepares the consolidated financial statements for the largest group of companies. The consolidated financial statements (10-k) of Adtran Holdings, Inc. are available at https://www.sec.gov/edgar/browse/?CIK=926282&owner=exclude.

(30) Proposal for the appropriation of the accumulated profit

The Management Board of Adtran Networks SE has decided:

It is proposed to the General Meeting to carry forward the accumulated profit ("Bilanzgewinn") of Adtran Networks SE as shown in the adopted annual financial statements of as of December 31, 2023 for fiscal year 2023 in the amount of EUR 177,438,127.08 in full into a new account.

(31) Events after the balance sheet date

There were no events after the balance sheet date that have a material impact on the net assets and financial position or the results of operations.

Declaration of compliance with corporate governance code

Pursuant to Section 161 of the German Stock Corporation Law (AktG), the management board and the supervisory Board have issued a declaration of compliance with the German Corporate Governance Code. This declaration is published on the group's website (www.adtran.com).

Meiningen, April 16, 2024

Thomas R. Stanton

Christoph Glingener   Ulrich Dopfer

Affirmative declaration of the legal representatives

We, the members of the management board of Adtran Networks SE, to the best of our knowledge affirm that, in accordance with the applicable reporting principles, the management report and the financial statements of Adtran Networks SE represent a true and fair view of the net assets, financial position and performance of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Meiningen, April 16, 2024

Thomas R. Stanton

Christoph Glingener Ulrich Dopfer

INDEPENDENT AUDITOR'S REPORT

To Adtran Networks SE, Meiningen

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of Adtran Networks SE (formerly: ADVA Optical Networking SE), Meiningen, which comprise the balance sheet as at 31 December 2023, and the statement of profit and loss for the financial year from 1 January to 31 December 2023 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Adtran Networks SE, which is combined with the group management report, for the financial year from 1 January to 31 December 2023. In accordance with German legal requirements, we have not audited the content of the information contained in the subsection "Risk management system" of the section " Risk and opportunity report" of the management report, which is marked as unaudited.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2023 and of its financial performance for the financial year from 1 January to 31 December 2023 in compliance with German Legally Required Accounting Principles and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the above-mentioned disclosures in the sub-section "Risk management system" of the section " Risk and opportunity report".

Pursuant to § 322 Abs.3 Satz 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2023. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Accounting treatment of internally generated intangible assets

❷ Valuation of shares in affiliated companies

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

❶ **Accounting treatment of internally generated intangible assets**

① In the Company's annual financial statements, internally generated industrial property rights and similar rights and assets are recognized in the amount of EUR 123,535 thousand (26.7 % of total assets) under the balance-sheet item „Intangible assets “. These represent the costs of developing new products which are permitted to be capitalized in accordance with § 248 Abs. 2 Satz 1 HGB. Capitalized own expenses contributed TEUR 45,820 to the net profit or loss for the financial year. Development costs of this type may only be capitalized subject to certain conditions. GAS 24, the application of which is recommended in the annual financial statements, sets out the conditions in detail. Nevertheless, the assessment of eligibility for capitalization still leaves considerable scope for the exercise of judgment. Against this background and due to the underlying complexity of the methodological requirements for the measurement, this matter was of particular significance for our audit.

② As part of our audit, we assessed the internal processes and controls for recording the development projects among other things. We also assessed the methodology used to calculate the expenses eligible for capitalization. We evaluated the eligibility for capitalization of each material project on the basis of the conditions set out in GAS 24. We evaluated the stage of progress of the particular project by means of discussions with members of staff in the R&D controlling department and inspection of the project documentation. We assessed the amount of the development costs capitalized and the recoverability of the development expenditure on the basis of suitable supporting evidence. In our view, the methodology applied by the Company for capitalizing development projects is appropriate, and the stage of completion of the projects and the development costs capitalized have been clearly documented.

③ The Company's disclosures on internally generated intangible assets are contained in sections accounting policies and valuation, (1) Fixed assets and (2) Self-constructed industrial and similar rights and assets, and licenses in such rights and assets in the notes to the annual financial statements.

❷ **Valuation of shares in affiliated companies**

① In the Company’s annual financial statements, shares in affiliated companies are disclosed in the amount of EUR 64,762 thousand (14.0 % of total assets) under the balance-sheet item “Financial assets”.

Shares in affiliated companies are measured in accordance with German commercial law at the lower of cost or fair value. The fair values of the material shares in affiliated companies are calculated using discounted cash flow models as the present values of the expected future cash flows according to the planning projections prepared by the executive directors. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the individually determined cost of capital for the relevant financial asset. Based on the values calculated and other documentation, there was an impairment loss recognized in the fiscal year in the amount of EUR 9,490 thousand.

The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors of the future cash flows, and on the respective discount rates and rates of growth employed. The valuation is therefore subject to material uncertainty. In the light of this background and the highly complex nature of the measurement, this matter was of particular significance during our audit.

② As part of our audit, we assessed the methodology employed for the purposes of the valuation exercise, among other things. In particular, we assessed whether the fair values of the significant shares in affiliated companies had been appropriately determined using discounted cash flow models in compliance with the relevant measurement standards. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as on the executive directors’ explanations regarding the key planning value drivers underlying the expected cash flows. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the values of the entities calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied and evaluated the measurement model. Taking into consideration the information available, we believe that the valuation parameters and underlying assumptions used by the executive directors are appropriate overall for the purpose of accurately measuring the material shares in affiliated companies.

In our opinion, the valuation parameters applied by the legal representatives and the underlying valuation assumptions, taking into account the available information, are suitable overall for the proper valuation of the material shares in affiliated companies.

③ The Company's disclosures on shares in affiliated companies are contained in sections accounting policies and valuation, (1) Fixed assets and (4) Shares in affiliated companies, in the notes to the annual financial statements.

Other Information

The executive directors are responsible for the other information. The other information includes the information contained in the subsection "Risk management system" of the section “Risk and opportunity report" of the management report, which is marked as unaudited, as a component of the management report that has not been audited in terms of content.

The other information comprises also

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB
- the separate non-financial report to comply with §§ 289b to 289e HGB and with §§ 315b to 315c HGB

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report disclosures audited in terms of content or with our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company’s position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company’s financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company’s position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

Assurance Opinion

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the annual financial statements and the management report (hereinafter the “ESEF documents”) contained in the electronic file Adtran_SE_JA+LB_ESEF-2024-04-16.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format (“ESEF format”). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the annual financial statements and the management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January to 31 December 2023 contained in the “Report on the Audit of the Annual Financial Statements and on the Management Report” above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the annual financial statements and the management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the “Auditor’s Responsibilities for the Assurance Work on the ESEF Documents” section. Our audit firm applies the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QMS 1 (09.2022)).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic rendering of the annual financial statements and the management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The supervisory board is responsible for overseeing the process for preparing the ESEF-documents as part of the financial reporting process.

Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the annual financial statements on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited annual financial statements and to the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 24 May 2023. We were engaged by the supervisory board on 12 October 2023. We have been the auditor of the Adtran Networks SE, Meiningen, without interruption since the financial year 2010.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

REFERENCE TO AN OTHER MATTER– USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited annual financial statements and the audited management report as well as the assured ESEF documents. The annual financial statements and the management report converted to the ESEF format – including the versions to be filed in the company register – are merely electronic renderings of the audited annual financial statements and the audited management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Jürgen Schumann.

Meiningen, April 16, 2024

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

sgd. Jürgen Schumann	**sgd. ppa. Ralph Jakobi**
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)