Building a secure tomorrow

ANNUAL FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT

December 31, 2024

Contents

Combined management report

Disclaimer: Potential inconsistencies in the table values are based on rounding differences.

Basis of preparation

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, 2024, 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.

In the combined management report, prior-year figures have been adjusted in accordance with IAS 8 accounting policies, changes in accounting estimates and errors. Further details on the changes made are presented in note (4) to the consolidated financial statements.

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

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. Management at the highest group level of Adtran Holdings is based on revenues and adjusted EBIT[1] according to US GAAP for the Adtran Holdings group as a whole. These key figures are important key perfomance indicators for the Adtran Networks Group. In the 10-K report for the 2024 financial year published on March 3, 2025, the Adtran Holdings group reported revenues of USD 922.7 million and an adjusted EBIT of positive USD 3.2 million.[2]

In addition, the most important performance indicators for managing the Adtran Networks Group in the IFRS consolidated financial statements of Adtran Networks SE continue to be revenues, pro forma EBIT[3] and net cash[4]. These key figures are reported to the management board and the supervisory board on a quarterly and annual basis.

In addition, a forecast for customer satisfaction measured by the net promoter score (NPS) for 2024 of 35% was given in the annual report 2023. Since the 2024 financial year, the NPS has not been analyzed at the level of Adtran Networks SE. The NPS is therefore no longer considered a significant non-financial performance indicator.

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

[1] 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 Holdings, Inc.
[2] Unaudited information
[3] 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.
[4] 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. and Adtran, 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.

General economic and market conditions

The global economy at the beginning of 2025

The International Monetary Fund (IMF) has updated its economic growth projections for nations and regions in its latest World Economic Outlook (WEO), adjusting most forecasts compared to its October 2024 report. In the January 2025 edition, the IMF estimates that global economic growth will reach 3.3% in 2025, a slight increase from the 3.1% projected for 2024. The US economy is expected to expand by 2.7%, up from 2.1% in 2024, while the euro area is forecast to grow by 1.0% in 2025, compared to an estimated 0.8% in the previous year. For Germany, the IMF projects an increase of 0.3%, following a -0.2% decrease in 2024.

The fiscal policies implemented by central banks worldwide to curb inflation have yielded positive results in many regions. Global inflation is expected to decline to 4.2% in 2025 and further to 3.5% in 2026. Over the medium term, a gradual easing of fiscal policy is anticipated.

Market environment for Adtran Networks

The pandemic further highlighted the essential role of robust telecommunications infrastructure. However, after record-breaking quarters in 2022 and 2023, sentiment in the optical networking sector deteriorated significantly. Many major telecommunications providers had built up large inventories and postponed infrastructure projects. The macroeconomic environment and rising interest rates also placed financial strain on these companies. Management anticipates that inventory levels have largely stabilized, which should lead to increased customer investment in 2025.

The addressable market for Adtran Networks continues to be shaped by increasing digitalization and sustained demand for cloud[5]-based solutions and high-performance communications infrastructure. The growing adoption of artificial intelligence (AI), data-intensive applications such as virtual reality (VR), ultra-high-definition video and the industrial internet of things (Industrial IoT[6]) is further accelerating market demand. The use of remote and hybrid work models, along with AI-driven business processes, remains a key growth factor. Additionally, government funding programs, such as those supporting broadband expansion and green technologies, are providing further momentum.

In recent years, the telecommunications network industry has undergone consolidation, most recently with Nokia's acquisition of Infinera in 2024. Only a few manufacturers with strong innovation capabilities and stable business models have remained competitive. Vendors with lower technological standards, particularly from Asia, are increasingly being excluded from Western networks due to growing concerns over trust and security. The Covid-19 pandemic and geopolitical tensions have further underscored the need for resilient network infrastructures and secure supply chains.

Adtran Networks has consistently invested in innovation, positioning itself as a leader in secure and scalable data transmission technologies. The company's network solutions form the backbone of digital economies, AI deployments, Industrial IoT applications, and mobile network expansion. Its technology enables high-performance cloud and edge computing applications as well as data center interconnect DCI[7]) solutions. In particular, fiber-optic transmission based on wavelength division multiplexing (WDM[8]) remains a core segment and competitive advantage.

Additionally, Adtran Networks' synchronization technology supports highly precise time synchronization, which is critical for 5G networks, global data centers and essential infrastructure. The ongoing expansion of the company's portfolio is also enabling it to serve additional industries, such as energy providers and government networks.

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[5] 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.
[6] 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.
[7] Network that connects geographically dispersed data centers.
[8] 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.

Market outlook

After an estimated decline in the addressable market to $10.3 billion[9] in 2024, growth is projected to reach $12.5 billion by 2028. The shift in demand from Asian vendors like Huawei to European manufacturers is creating new opportunities, though their full impact is yet to be determined. The increasing need for secure communications technology in critical infrastructure is also opening new business avenues for Adtran Networks.

Overall, Adtran Networks remains competitive to capitalize on the rising importance of modern communications networks and the growing demand for security. (see also the chapter “market, target customers and growth drivers”).

[9] 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 three key performance indicators for Adtran Networks. In 2024, the group generated revenues of EUR 438.1 million, a decrease of 28.6 % on revenues of EUR 613.7 million in 2023. In 2024, there was a slowdown in demand from many customers due to high inventory levels. This effect was observed among telecommunications service providers and internet content providers (ICPs[10]) in the first half of the year in particular and weakened somewhat towards the end of the year. In addition, a number of important projects were completed, which increased sales in 2023. The group reported revenues of EUR 118.9 million in Q4 2024. This corresponds to an increase of 17.3 % compared to Q3 2024 and of 0.4 % compared to Q4 2023. In Q4 there was an upturn in demand from some telecommunication providers which boosted the revenues along with some key enterprise projects.

In 2024, EMEA (Europe, Middle East and Africa) was again the most significant sales region amounting to 52.7 % of total revenues (prior year: 56.8 %), followed by the Americas reporting 35.1 % of total revenues (prior year: 34.3 %) and Asia-Pacific amounting to 12.2 % of total revenues (prior year: 8.9 %).

Year-over-year, EMEA revenues of EUR 230.8 million in 2024 were significantly down from EUR 348.5 million in 2023. Adtran Networks continues to maintain a broad and loyal customer base in this region. However, high customer inventories and the delay in the completion of an important customer project had a negative impact on business in this region. The strong decline of 33.8 % compared to the previous year is due to low demand from service providers.

In the Americas region, revenues also strongly decreased from EUR 210.6 million in 2023 to EUR 153.9 million in 2024. This is driven by decreased demand from service providers and enterprise customer due to high customer inventories.

In Asia-Pacific, revenues slightly decreased from EUR 54.6 million in 2023 to EUR 53.4 million in 2024. Asia-pacific revenues remained reasonably consistent, service provider revenues saw a slight increase and sales with enterprise customers developed positively in some cases.

[10] 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)	2024	Portion of revenues	2023	Portion of revenues
Revenues	**438.1**	**100.0 %**	**613.7**	**100.0 %**
Cost of goods sold	(282.3)	64.4 %	(395.1)	64.4 %
Gross profit	**155.8**	**35.6 %**	**218.6**	**35.6 %**
Selling and marketing expenses	(59.6)	13.6 %	(68.5)	11.2 %
General and administrative expenses	(31.9)	7.3 %	(42.1)	6.9 %
Research and development expenses	(108.0)	24.7 %	(105.6)	17.2 %
Other operating income and expenses, net	1.1	0.2 %	11.0	1.8 %
Operating income	**(42.6)**	**(9.7)%**	**13.3**	**2.2 %**
Interest income and expenses, net	(3.0)	0.7 %	(3.3)	0.5 %
Other financial gains and losses, net	(1.3)	(0.3)%	(4.0)	(0.7)%
Income before tax	**(46.9)**	**(10.7)%**	**6.0**	**1.0 %**
Income tax expense (benefit), net *)	(15.8)	3.6 %	(18.3)	(3.0)%
Net loss *)	**(62.7)**	**(14.3)%**	**(12.2)**	**(2.0)%**
Earnings per share (in EUR)				
basic	0.00		0.00	
diluted	0.00		0.00	

*) The 2023 income tax benefit (expense), net and the net loss was corrected according to IAS 8. Details are explained in Note (4).

Cost of goods sold and gross profit

Cost of goods sold decreased from EUR 395.1 million in 2023 to EUR 282.3 million in 2024, 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 40.4 million in 2024 after EUR 39.2 million in 2023.

Gross profit declined to EUR 155.8 million in 2024 after EUR 218.6 million in 2023, comprising 35.6 % of revenues in both periods, respectively.

Selling and marketing expenses

Selling and marketing expenses of EUR 59.6 million in 2024 were down from EUR 68.5 million in 2023 and comprised 13.6 % and 11.2 % of revenues, respectively. The absolute cost decrease is mainly attributable to lower variable personnel expenses relating to the decreased revenues and order entries in 2024 as well as to to the sales-related reduction in work 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

General and administrative expenses were at EUR 31.9 million in 2024, down from EUR 42.1 million recorded in 2023. The share of total revenues was at 7.3 % in 2024 versus 6.9 % in 2023. The decrease in general and administrative expenses results in particular from lower personnel expenses due to restructuring measures in prior periods. In prior year, higher one-time expenses for those restructuring measures had been considered.

Research and development expenses

Net research and development expenses of EUR 108.0 million were up from EUR 105.6 million reported in 2023, thereby constituting 24.7 % of revenues in 2024 after 17.2 % in the prior year. Capitalization of development expenses of EUR 36.6 million in 2024 were lower than the EUR 45.8 million seen in 2023 mainly driven by the decline in personnel costs and restructuring measures that have been implemented. The capitalization rate in 2024 amounted to 25.3 % (prior year: 30.3 %).

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 2024, research and development activities were focused on the following four technology areas:

- Enhancements to the open optical transport solution including the development of new terminal solutions such as M-Flex800 and the improvement of the Optical Line System to in terms of capacity and performance
- Development of a new generation of high-speed and cost-optimized network terminals
- Continued product security hardening to meet regulatory requirements regarding critical infrastructure
- Extensions to the Oscilloquartz Synchronization & Timing product portfolio

Operating income

Net other operating income and expenses amounted to positive EUR 1.1 million in 2024, were down from positive EUR 11.0 million in the prior year. In 2024, impairment losses on goodwill were included, which were only partially offset by higher income from the provision of services to the Adtran Holdings, Inc. group and its subsidiaries. In addition, other operating income included in particular subsidies for research projects amounting to EUR 8.5 million (previous year: EUR 4.7 million).

Total operating expenses decreased from EUR 205.3 million in 2023 to EUR 198.4 million in 2024, representing 45.3 % of revenues in 2024 after 33.4 % in the prior year.

Overall, Adtran Networks reported a clearly negative operating result of EUR 42.6 million in 2024 after an operating income of EUR 13.3 million in the prior year. The significant decline in the operating result was primarily due to the recognition of impairment losses on goodwill due to lower expected future earnings contributions and lower EBITDA margins, as well as from 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[11]

Pro forma EBIT represents one of the three 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 positive EUR 39.8 million in 2023 to negative EUR 10.2 million in 2024.

[11] 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, integration and restructuring measures are not included.

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

(in millions of EUR)	2024	2023
Operating income	**(42.6)**	**13.3**
Expenses related to share-based compensation	5.9	5.3
Amortization of intangible assets from business combinations	1.4	3.3
Impairment of goodwill	17.4	4.5
Expenses related to M&A transactions, integration and restructuring expenses	7.7	13.4
Pro forma EBIT	**(10.2)**	**39.8**

In 2024, the expenses related to M&A transactions, integration and restructuring expenses included restructuring expenses of EUR 7.0 million (prior year: EUR 12.3 million). The higher restructuring expenses in 2023 are 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. which were continued to a lesser extent in 2024.

Net income/(loss)

Given the substantially decreased operating result Adtran Networks reported a net loss of EUR 62.7 million for 2024, after a net loss of EUR 12.2 million in 2023 considering prior year adjustments according to IAS 8[12]. Beyond operating income, the net result in 2024 included net interest expenses of EUR 3.0 million (prior year: EUR 3.3 million) and net other financial loss of EUR 1.3 million (prior year: net other financial loss of EUR 4.0 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 2024, the group reported an income tax expense of EUR 15.8 million after an income tax expense of EUR 18.3 million in 2023, representing a tax rate of 33.75 % (previous year: tax rate of 303.47 %). In both 2024 and 2023 the income tax expense mainly results from the reversal of deferred tax assets on the tax loss carryforwards of Adtran Networks SE.

Summary: Business development and operational performance

Although the gross margin increased in 2024 compared to the previous year, the operating result deteriorated in connection with declining sales revenue. Operating costs increased despite positive effects from the restructuring measures due to the recognition of goodwill impairments. Therefore, Adtran Networks reports a net loss in 2024.

[12] Prior year adjusted according to IAS 8 (please refer to note (4) of the notes to the consolidated financial statements for further details).

Net assets and financial position of the group

Balance sheet structure

Adtran Networks' total assets slightly increased by EUR 0.4 million or 0.1 %, from EUR 669.6 million[13] at year-end 2023 to EUR 670.0 million at the end of 2024.

Assets

Current assets increased by EUR 5.2 million or 1.5 % from EUR 357.7 million on December 31, 2023, to EUR 362.9 million on December 31, 2024, and comprised 54.2 % of the balance sheet total after 53.4 % at the end of the prior year. The increase in current assets was mainly driven by an increase in receivables from the domination and profit and loss transfer agreement with Adtran Holdings, Inc. of EUR 47.1 million at the end of 2024 after EUR 23.9 million at the end of the previous year. Other current assets increased in particular due to increased receivables from funded research projects as well as receivables from the sale of debt instruments of other entities by EUR 7.2 million to EUR 85.4 million at year-end 2024. At the same time, cash and cash equivalents declined by EUR 3.5 million to EUR 27.0 million as of December 31, 2024. This related in particular to the negative development of results. Trade accounts receivable decreased from EUR 115.6 million to EUR 108.6 million at the end of December 2024. DSOs[14] deteriorated significantly from 71 days reported in 2023 to 83 days in 2024. Inventories were down by EUR 15.1 million to EUR 91.1 million. Inventory turns decreased from 3.3x in 2023 to 2.9x in 2024.

Non-current assets declined by EUR 4.8 million from EUR 312.0 million at year-end 2023 to EUR 307.1 million on December 31, 2024. This decrease was in particular was impacted by an impairment charge on goodwill, that was partially offset by exchange rate effects. Goodwill overall decreased by EUR 14.7 million to EUR 50.2 million at the end of 2024. Non-current assets by declined by EUR 6.2 million to EUR 17.1 million at the current year-end, particularly in connection with lower receivables from funding. Right-of-use assets from lease agreements decreased to EUR 25.5 million at the end of 2023 after EUR 28.3 million at the end of the previous year, primarily due to reduction of lease space as a result of restructuring measures. Property plant and equipment decreased by EUR 4.5 million and capitalized development projects decreased from EUR 104.6 million to EUR 100.6 million at year-end 2024. At the same time, deferred tax assets (after netting) slightly increased by EUR 0.2 million to EUR 19.7 million at the end of 2024 after taking into account adjustments to the previous year's figures in accordance with IAS 8. 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[15] brands, the vendor and partner relationships and a motivated and qualified global team. These assets are not recognized in the balance sheet.

[13] Prior year adjusted according to IAS 8 (please refer to note (4) of the notes to the consolidated financial statements for further details).
[14] Days Sales Outstanding: The key figure describes the average number of days between invoicing and receipt of payment.
[15] Ensemble is a trademark used by Adtran Networks for the company’s software solutions.

Liabilities

With respect to equity and liabilities, current liabilities increased by EUR 16.0 million from EUR 148.2 million at year-end 2023 to EUR 164.1 million at the end of 2024. The rise is mainly due to an increase of trade accounts payables by EUR 5.5 million to EUR 48.6 million at the end of 2024. DPO[16] declined to 55 days in 2024 compared to 62 days in the previous year. Due to the consolidation of a special purpose entity in connection with a factoring agreement, the group continues to report a liability to banks as at December 31, 2024 amounting to EUR 21.5 million (prior year: EUR 13.3 million). The financial liabilities are explained in more detail in a separate section below. Other current liabilities at the end of 2024 include in particular obligations from subsidized research projects and increased by EUR 4.8 million compared to December 31, 2023. At the same time, current provisions fell to EUR 14.5 million as at December 31, 2024 compared to EUR 18.4 million at the end of the previous year.

Non-current liabilities at EUR 117.7 million at year-end 2024 were down from EUR 125.7 million reported at prior year-end. This was mainly due to the decrease in other non-current liabilities from EUR 23.7 million at the end of 2023 to EUR 15.4 million as at December 31, 2024 as a result of decreased obligations from funded research projects. In addition, non-current liabilities from leases were EUR 2.5 million lower at EUR 22.8 million in particular due to reduced rental space. In 2024, joint financing with Adtran Holdings, Inc. took place, which led to the recognition of a bank loan in the amount of EUR 46.9 million at the end of 2024. At the same time, a loan granted by Adtran Holdings, Inc. was fully repaid. The financial liabilities are explained in more detail in a separate section below. After taking into account adjustments to the previous year's figures in accordance with IAS 8, deferred tax liabilities increased by EUR 9.8 million to EUR 12.1 million as of December 31, 2024 as the offsetting potential has decreased due to lower deferred tax assets.

Stockholders' equity decreased by EUR 7.5 million from EUR 395.7 million[17] at year-end 2023 to EUR 388.2 million at the end of 2024. The negative effect from the consolidated net loss for the year was only partially offset by the loss absorption obligation of Adtran Holdings, Inc. in relation to the net loss for the year of Adtran Networks SE calculated in accordance with commercial law. The equity ratio remained fairly at 57.9 % at the end of 2024, after 59.1 % at year-end 2023.

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

[17] Prior year adjusted according to IAS 8 (please refer to note (4) of the notes to the consolidated financial statements for further details).

Capital expenditures

Capital expenditures for additions to property, plant and equipment in 2024 amounted to EUR 10.7 million, clearly down from EUR 19.0 million in 2023, largely reflecting lower investments in connection with the expansion of the Meiningen production facility, that was considered in 2023.

Capital expenditures for intangible assets of EUR 51.3 million in 2024 were up from EUR 49.2 million in the prior year. This total consists of capitalized development projects of EUR 36.5 million in 2024 after EUR 45.8 million in 2023, and investments in concessions, software licenses and other intangible assets of EUR 14.8 million in 2024 after EUR 3.4 million in 2023. 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)	2024	Portion of cash	2023	Portion of cash
Operating cash flow[18]	63.0	233.1 %	45.4	148.5 %
Investing cash flow[18]	(81.4)	301.0 %	(71.8)	235.0 %
Financing cash flow	12.6	46.4 %	(0.2)	0.5 %
Net effect of foreign currency translation on cash and cash equivalents	2.3	8.4 %	(1.3)	4.3 %
Net change in cash and cash equivalents	**(3.5)**	**13.0 %**	**(27.9)**	**91.3 %**
Cash and cash equivalents at the beginning of the period	30.6	113.0 %	58.4	191.3 %
Cash and cash equivalents at the end of the period	**27.0**	**100.0 %**	**30.6**	**100.0 %**

Cash flow from operating activities of EUR 63.0 million in 2024 was significantly up by EUR 17.7 million from EUR 45.4 million [18] in 2023. This increase was mainly due changes in working capital.

Cash flow from investing activities was negative EUR 81.4 million in 2024 after negative EUR 71.8 million[18] in the prior year. In 2024, capital expenditures for other intangible assets increased compared to the previous year, while at the same time investments in property, plant and equipment and capitalized development projects fell. The cash flow from investing activities in 2024 and 2023 includes the increase in the balance from the purchase of receivables from Adtran, Inc. due to a joint factoring agreement in the amount of EUR (5.3) million and EUR (3.9) million, respectively.

Finally, cash flow from financing activities was at positive EUR 12.6 million in 2024 significantly up compared to the level of negative EUR 0.2 million in 2023. The net cash inflow in in 2024 mainly resulted from the payment of the receivables from the 2023 loss assumption by Adtran Holdings, Inc. The cash outflow in 2023 mainly related to scheduled repayments and interest payments for existing liabilities to banks and to Adtran Holdings, Inc.

Overall, including the net effect of foreign currency translation on cash and cash equivalents of positive EUR 2.3 million (2023: negative EUR 1.3 million), cash and cash equivalents again decreased by EUR 3.5 million in 2024, from EUR 30.6 million at year-end 2023 to EUR 27.0 million at the end of 2024, after a decrease of EUR 27.9 million in the prior year.

[18] Prior year adjusted according to IAS 8 (please refer to note (4) of the notes to the consolidated financial statements for further details).

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 equity base, 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

In 2024, financial liabilities decreased by EUR 0.3 million to EUR 97.2 million at the end of 2024. The liability from a loan from Adtran Holdings, Inc. in the amount of EUR 52.8 million on December 31, 2023 was repaid in full in 2024 and replaced by a joint loan agreement (Senior Secured Credit Facility) of Adtran Holdings, Inc. with Wells Fargo Bank and other lenders in the amount of EUR 46.9 million at the end of 2024. Due to a factoring agreement concluded at the end of 2023, the group continues to report a current liability to banks in the amount of EUR 19.0 million as at December 31, 2024 (prior year: EUR 13.3 million).

Current lease liabilities slightly decreased by EUR 0.5 million, to EUR 6.0 million at the end of December 2024 while non-current lease liabilities decreased by EUR 2.5 million to EUR 22.8 million.

Further details about the group’s financial liabilities can be found in notes (16) and (17) to the consolidated financial statements.

Net cash[19]

Net cash represents one of the three key performance indicators for the group. Despite the decline in cash and cash equivalents, Adtran Networks’ net cash improved significantly by EUR 35.8 million from net debt of EUR 42.4 million at year-end 2023 to net debt of EUR 6.6 million at the end of 2024. This was in particular due to the loans granted to Adtran Inc. and the significant increase in receivables from Adtran Holdings, Inc. related to the control and profit and loss transfer agreement. Cash and cash equivalents of EUR 27.0 million on December 31, 2024, and of EUR 30.6 million on December 31, 2023, were invested mainly in euro, USD and in GBP.

[19] 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. and Adtran, 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)	2024	2023
Liabilities to banks		
current	(21.5)	(13.3)
non-current	(46.9)	—
Financial liabilities to Adtran Holdings, Inc.		
non-current	—	(52.8)
Lease liabilities		
current	(6.0)	(5.6)
non-current	(22.8)	(25.3)
Loans granted	16.4	—
Receivable from Adtran Holdings, Inc. due to the control and profit and loss transfer agreement	47.1	23.9
Cash and cash equivalents	27.0	30.6
Net debt	**(6.6)**	**(42.4)**

Summary: Net assets and financial position

Despite the significant improvement in cash flow from operating activities, cash and cash equivalents again decreased. Nevertheless, Adtran Networks' net assets and financial position remains stable in 2024 reporting an equity ratio of 57.9 %.

Transactions with related parties

Transactions with related individuals and legal entities are discussed in notes (41) and (42) to the consolidated financial statements.

Performance of Adtran Networks SE

In addition to reporting on the Adtran Networks Group, the development of Adtran Networks SE is explained below. The financial performance indicator used to manage the company is revenue. As the course of business, including the business result and the situation of the Adtran Networks Group and Adtran Networks SE were the same in the past financial year and the expected development with its significant opportunities and risks in the Adtran Networks Group and Adtran Networks SE is also the same, please refer to the disclosures in the Group management report for the forecast information on the financial performance indicator.

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 302.1 million. This corresponds to a decrease of 30.0 % compared to sales of EUR 431.3 million in the previous year. In 2024 there was a weakening in demand from many customers due to high inventories. This effect was particularly noticeable for telecommunications service providers and internet content providers (ICPs) in the first half of the year and weakened somewhat towards the end of the year. In addition, several important projects were completed in the previous year, which had increased revenues in 2023. In the previous year's management report, a decline in revenue of around 25% was expected in the 2024 forecast report.

EMEA remained the most important sales region in 2024, followed by the Americas and Asia-Pacific. Sales in EMEA decreased by 35.7 % from EUR 284.3 million to EUR 182.9 million. The share of total sales decreased from 65.9 % in 2023 to 60.5 % in 2024. 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 24.3 %, from EUR 96.8 million in 2023 to EUR 73.2 million in 2024. 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 24.2 % in 2024 after 22.4 % in 2023. In the Asia-Pacific region, sales decreased by 8.3 % from EUR 50.1 million in 2023 to EUR 46.0 million in 2024. The decline is due to a drop in demand from key customers as a result of high inventory levels. The Asia-Pacific region contributed 15.2 % to total sales in 2024, compared to 11.6% in 2023.

Cost of sales decreased from EUR 270.0 million in 2023 to EUR 191.2 million in 2024. The share of sales of 63.3 % increased compared to the previous year (62.6 %).

Gross profit decreased from EUR 161.3 million or 37.4 % of sales in 2023 to EUR 110.9 million or 36.7 % of sales in 2024. The company's gross margin fell slightly in 2024 due to a decline in sales and a deterioration in the operating result. In general, there are effects from shifts in the regional distribution of sales and changes in the customer and product mix.

Selling and marketing expenses remained almost constant at EUR 41.3 million in 2024 (previous year: EUR 41.1 million).

General administrative expenses fell from EUR 24.7 million in 2023 to EUR 20.8 million in 2024. The decrease versus 2023 is due to significant lower expenses for external services.

After decreased capitalization of internally generated intangible assets worth EUR 0.0 million in 2024 compared to EUR 45.8 million in the previous year, research and development costs amounted to EUR 110.4 million or 36.5 % of sales compared to EUR 119.6 million or 27.7 % of sales in the previous year.

Other operating result (other operating income less other operating expenses) increased from EUR 1.4 million in the previous year to EUR 9.8 million in 2024. The other operating result in 2024 was mainly influenced by write-ups on financial assets and a write-up on a customer base acquired against payment in previous years.

In 2024 income from affiliated companies was distributed to the company in the amount of EUR 18.2 million. This investment income resulted from dividend distributions from Adtran Networks North America, Inc (Norcross/Atlanta, USA), Adtran Networks (UK) Ltd (York, United Kingdom) and Adtran Networks Singapore Pte Ltd (Singapore). In the previous year, profit distributions from subsidiaries amounted to EUR 10.9 million.

Summary: Operational performance

The gross margin fell slightly in 2024 compared to the previous year, and the operating result also deteriorated in connection with a decline in sales. The net loss for the year was fully offset by the loss absorption by Adtran Holdings, Inc.

Net assets and financial position

Adtran Networks SE's total assets increased by EUR 15.9 million to EUR 478.4 million as at December 31, 2024, compared to EUR 462.5 million on the previous year's reporting date.

Fixed assets increased from EUR 219.2 million to EUR 249.0 million and now account for 52.1 % of the balance sheet total, compared to 47.4 % at the end of the previous year. The increase in fixed assets is mainly due to the increase in shares in affiliated companies by EUR 4.0 million from EUR 64.8 million to EUR 68.8 million and an increase in loans to affiliated companies in the financial year by EUR 16.5 million from EUR 1.8 million to EUR 18.3 million due to a loan to Adtran, Inc. in the amount of USD 17,1 million. Current assets decreased in the financial year from EUR 240.5 million in the previous year to EUR 227.5 million. Current assets therefore accounted for 47.6 % of total assets as at December 31, 2024, compared to 52.0 % at the end of 2023. The increase in current assets is mainly due to the increase in receivables and other assets by EUR 16.8 million to EUR 131.2 million after EUR 114.4 million in 2023. There was also a decrease in inventories from EUR 118.1 million in the previous year to EUR 92.2 million in 2024. This reduction is due to the decrease in orders for materials and the increased depreciation of old materials. Furthermore, current assets decreased from EUR 8.0 million in the previous year to EUR 4.2 million due to the decline in cash and cash equivalents.

Equity increased slightly from EUR 278.4 million at the end of 2023 to EUR 278.9 million at the end of 2024 and amounted to 58.3 % of total assets after 60.2 % at the previous year's reporting date.

Liabilities increased from EUR 147.4 million in the previous year to EUR 156.4 million. This change is mainly the result of the increase in liabilities to banks by EUR 48.6 million as a result of taking out a loan. Trade payables increased by EUR 1.2 million. This was offset by a reduction in liabilities to affiliated companies of EUR 41.8 million, which mainly resulted from the loan repayment to Adtran, Inc. Provisions fell from EUR 22.0 million in the previous year to EUR 17.5 million at the end of 2024. Deferred income decreased from EUR 14.7 million in the previous year to EUR 14.5 million in 2024.

Capital expenditures

Investments in the 2024 financial year amounted to EUR 80.4 million (previous year: EUR 59.8 million). Of this amount, EUR 55.2 million (previous year: EUR 49.1 million) was invested in intangible assets, EUR 4.1 million (previous year: EUR 10.5 million) in property, plant and equipment and EUR 21.1 million in financial assets (previous year: EUR 0.3 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 mainly comprise expenditure on technical equipment and machinery in the amount of EUR 2.9 million. The increase in financial assets is mainly due to an increase in loans to affiliated companies (Adtran, Inc., Huntsville, USA) in the amount of EUR 17.1 million.

Liquidity

The development of cash and cash equivalents analyses as follows:

(in millions of EUR)	2024	2023
Operating cash flow	(33.4)	108.6
Investing cash flow	(79.8)	(56.2)
Financing cash flow	109.4	(58.8)
Net change in cash and cash equivalents	**(3.8)**	**(6.4)**
Cash and cash equivalents at the beginning of the year	8.0	14.4
Cash and cash equivalents at the end of the year	**4.2**	**8.0**

During 2023 and 2024, the company was able to meet all payment obligations.

Cash and cash equivalents of EUR 4.2 million as at 31 December 2024 and EUR 8.0 million as at 31 December 2023 were largely denominated in euros and US dollars. The decrease of EUR 3.8 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 from a new factoring agreement concluded on 19 December 2023 as well as current and non-current financial receivables from and liabilities to Adtran Holdings, Inc. including receivables from the domination and profit and loss transfer agreement. In the 2024 financial year, the company also entered into a loan agreement (Senior Secured Credit Facility) of Adtran Holdings, Inc. with

Wells Fargo Bank and other lenders as an additional borrower. As at 31 December 2024, Adtran Networks SE had drawn EUR 46,917 thousand (USD 49,000 thousand) from this agreement.

Financing

Liabilities to banks increased from EUR 4.2 million at the end of 2023 to EUR 52.8 million at the end of 2024. On June 4, 2024, Adtran Networks became an additional borrower in a credit agreement (Senior Secured Credit Facility) of Adtran Holdings, Inc. with Wells Fargo Bank and other lenders. The fourth amendment to the previously existing agreement originally allows for a subline of USD 100,000 thousand available for borrowing by Adtran Networks SE ("subline"). As of December 31, 2024, Adtran Networks SE has drawn EUR 46,917 thousand (USD 49,000 thousand) from this agreement. At the end of 2024, the total limit of the subline is USD 74,000 thousand. At the same time, Adtran Networks repaid the financial liability to Adtran Holdings, Inc. in the amount of USD 57,500 thousand in full on June 4, 2024. In addition, a current financial liability results from a factoring agreement concluded in 2023. There is also a long-term intercompany loan with Adva Network Security GmbH in the amount of EUR 15.0 million as at the end of 2024.

Dividend payments

Due to the domination and profit and loss transfer agreement concluded with Adtran Holdings, Inc. on December 1, 2022 and entered in the commercial register on January 16, 2023, the company did not distribute a dividend for 2023 in 2024 (previous year: zero for 2022). Adtran Networks SE does not plan to pay a dividend for the 2024 financial year either.

Summary: Net assets and financial position

The net assets and financial position of Adtran Networks SE remained stable in 2024 despite the reduction in cash flow from operating activities and investing activities, but at the same time due to the increase in cash flow from financing activities.

Events after the balance sheet date

Recently, the global economy has had to contend with several announcements of tariffs in the USA. The volatility of these tariff announcements is creating significant uncertainty for global trade. Adtran is closely monitoring the situation while actively seeking solutions. We have established a communication channel with our suppliers and customers that will remain open and active as we work to keep all stakeholders informed on how recent tariff actions may affect Adtran products used in building and expanding your networks.

Adtran Networks operates a production facility at the headquarters of its parent company in Huntsville, Alabama, and collaborates with manufacturers outside the USA. This approach ensures an efficient, flexible, and cost-effective supply chain. Adtran Networks will continue to monitor and adjust global production processes as needed to minimize potential tariff impacts. To avoid additional tariffs, the relocation of inventory is being considered to continue meeting customers' short-term needs. Furthermore, Adtran Networks works closely with all suppliers to adapt business models and thereby reduce potential tariff burdens.

The financial impact of the customs announcements and the resulting uncertainties in global trade on the net assets, financial position and results of operations of Adtran Networks SE cannot be estimated at this time.

There were no further events after the balance sheet date that might 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 HGB and Section § 315a HGB

Share capital and shareholder structure

On December 31, 2024, Adtran Networks SE had issued 52,054,500 ordinary no-par value bearer shares (December 31, 2023: 52,054,500). The ordinary shares entitle the holder to vote at the general meeting and to receive dividends in case of a distribution. No restrictions are attached to the ordinary shares. No other class of shares had been issued during the reporting period.

On December 1, 2022, Adtran Networks SE concluded a domination and profit and loss transfer agreement with Adtran Holdings, Inc. based at 901 Explorer Blvd NW, Huntsville, AL 35806, United States, as the controlling company, which was approved by the Annual General Meeting on November 30, 2022. Under this domination and profit and loss transfer agreement, Adtran Networks SE is obliged to transfer its entire profit to Adtran Holdings, Inc. The holders of the ordinary shares (with the exception of Adtran Holdings, Inc. as the majority shareholder) are entitled to a compensation payment under the existing domination and profit and loss transfer agreement.

On December 31, 2024, Adtran Holdings, Inc. held a total of 34,856,232 shares or 66.23 %* of the share capital of Adtran Networks SE (on December 31, 2023: 33,957,538 representing 65.23 % of the share capital)

According to the voting rights notifications published until the end of 2024 in accordance with the German Securities Trading Act (Wertpapierhandelsgesetzt, WPHG), Raphael Kain held a total of 10.27 % of the voting rights (including instruments), whereby Samson Rock Event Driven Master Fund Limited, Camana Bay, Cayman Islands, was specified as the dissenting shareholder directly holding at least 3 % of the voting rights. In the voting rights notification, Raphael Kain and Samson Rock Capital LLP are named in the full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity. The Goldman Sachs Group, Inc., Wilmington, Delaware, United States of America, held a total of 10.70 % of the voting rights (including instruments), whereby 10.36 % of the voting rights (including instruments) are held directly by Goldman Sachs International. The full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity indicated in the voting rights notification includes the following companies: The Goldman Sachs Group, Inc, Goldman Sachs (UK) L.L.C., Goldman Sachs Group UK Limited, Goldman Sachs International Bank, The Goldman Sachs Group, Inc, Goldman Sachs & Co. LLC, The Goldman Sachs Group, Inc, Goldman Sachs (UK) L.L.C., Goldman Sachs Group UK Limited, Goldman Sachs International.

No other shareholder notified with the company to hold more than 10 % of the company's voting rights on December 31, 2024. Further details on share capital and shareholder structure are disclosed in note (22) 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, 2024.

Restriction of voting rights and share transfers

Neither the voting rights per share nor the transferability of the company's shares are subject to restrictions under company law. Nor was the management board of Adtran Networks SE aware of any agreements by shareholders relating to voting rights or the transfer of shares in the company at the end of 2024.

Appointment and dismissal of management board members

The appointment and dismissal of members of the management board of Adtran Networks SE follows the provision of the Council Regulation (EC) No. 2157/2001 of 8 October 2001 on the Statute for a European company (SE) ("SE Regulation") (Art. 39 para. 2, 46 para. 1 SE Regulation), the German Stock Corporation Act (sections 84, 85 AktG in conjunction with Art. 9 para. 1 lit. c) (ii) SE Regulation) and the provisions in section 6 of the company's current Articles of Association (last amended by resolution of the Annual General Meeting on June 28, 2024, which was entered in the commercial register on July 9, 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 articles of association, 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 can only revoke an existing appointment for good cause (section 84 para. 4 AktG in conjunction with Art. 9 para. 1 lit. c) (ii) SE Regulation). In the 2024 financial year, no new member of the management Board was appointed and no member of the management board was dismissed. Throughout the entire financial year, the Management board of Adtran Networks SE consisted of Thomas Richard Stanton (Chief Executive Officer), Christoph Glingener (Chief Technology Officer) and Ulrich Dopfer (Chief Financial Officer).

Changes to articles of association

Amendments to the Articles of Association of Adtran Networks SE are subject to the provisions of Art. 59 SE Regulation and Section 179 AktG. Pursuant to section 179 para. 2 sentence 1 AktG, amendments to the Articles of Association of an SE domiciled in Germany generally require a majority of at least three quarters of the share capital represented when the resolution is passed. The reference figure here is the number of votes validly cast in the vote on the resolution to amend the Articles of Association. Amendments to the Articles of Association must therefore be adopted by the Annual General Meeting with a majority of at least three quarters of the valid votes cast. In addition, the provisions in section 4 para. 6 and section 13 para. 3 of the company's current Articles of Association apply, according to which the supervisory board is authorized to resolve certain amendments to the wording of the Articles of Association, in particular to amend the wording of the Articles of Association in accordance with the scope of capital increases from authorized capital and the effectiveness of conditional capital.

Issuance and buy-back of shares

The rights of the management board to issue new shares are regulated in section 4 para. 4 and para. 5k of the articles of association of Adtran Networks SE. According to section 4 para. 4 of the Articles of Association of Adtran Networks SE, the management board, with the consent of the supervisory board, is authorized to issue up to 26,027,250 new shares from authorized capital, amounting to a total of EUR 26,027,250 against cash or contribution in kind with possible exclusion of subscription rights (authorized capital 2024/I). As of December 31, 2024, the authorized capital amounted to EUR 26,027,250, so that the authorization of the management board to issue new shares against cash or contribution in kin with the possible exclusion of subscription rights (subject to the detailed provisions of the current Articles of Association of the company) amounted to 26,027,250 shares or 50.00% of the outstanding shares as of this reporting date. In accordance with section 4 para. 5k of the current Articles of Association of Adtran Networks SE, the company's share capital is conditionally increased by up to EUR 3,491,861 by issuing up to 3,491,861 no-par value bearer shares (ordinary shares) (conditional capital 2011/I). The conditional capital increase solely serves to grant share purchase and similar rights to members of the management board, employees of the company and to members of the management and employees of affiliated companies. This capital increase will only be carried out to the extent that the holders of the subscription rights exercise their right. In 2024, no new shares were created in this way. However, as a result of the exercise of share options, 50,000 new shares were created in 2023. Their issuance was entered in the commercial register on February 13, 2024. As a result, the conditional capital 2011/I was reduced from EUR 3,541,861 to EUR 3,491,861 and the number of shares that can be issued from the conditional capital by the management board was reduced from 3,541,861 to 3,491,861.

Besides, at year-end 2024, according to section 71 para. 1 lit. 8 AktG, the management board was authorized to buy back a maximum of 10.0 % of the existing share capital at the time of resolution of the general meeting or – if this value is lower – at the time the authorization is exercised. This right was granted to the management board by a resolution of the general meeting on June 28, 2024 until June 27, 2029. The shares may be used for all legally permissible purposes; in particular, with the approval of the supervisory board, the shares may be redeemed in whole or in part or transferred in return for contributions in kind, especially in connection with the acquisition of facilities, companies, parts of companies or equity interests in companies. In addition, the shares may be offered to employees of the company or its group companies for purchase or be transferred or, with the approval of the supervisory board, may also be sold in ways other than via the stock exchange under certain conditions.

Significant agreements subject to a change of control

The company is party to a credit agreement under which the company had liabilities of USD 49,000,000 as of December 31, 2024. In the event of a change of control, the credit agreement grants the lenders the right to declare the outstanding amounts immediately due and payable and to terminate the credit facility. The company is party to a factoring agreement that can be terminated by the buyer of the receivables with immediate effect in the event of a change of control.

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[20] and has been subjected to a voluntary limited assurance engagement in accordance with ISAE 3000 (Revised) by KPMG AG Wirtschaftsprüfungsgesellschaft, Leipzig regarding the relevant legal requirements. The non-financial report will be published on the website https://www.adtran.com/en/about-us/esg at the same time as the annual report on April 30, 2025.

[20] 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, 2024, Adtran Networks had 2,118 employees worldwide, including 41 apprentices (prior year: 2,101 including 44 apprentices).

On average, Adtran Networks had 2,088 employees during 2024, up from 2,069 in 2023. Furthermore, there were 19 and 25 temporary employees working for Adtran Networks at year-end 2024 and 2023, respectively.

Personnel expenses in the group decreased from EUR 221.9 million in 2023 to EUR 208.3 million in 2024, representing 36.2 % and 47.5 % of revenues, respectively.

On December 31, 2024, Adtran Networks SE had 600 employees, thereof 41 apprentices (prior year: 609 employees, thereof 27 apprentices). This corresponds to a total reduction of 9 employees or 1.5 % compared to the previous year.

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

	2024	2023	Change
Purchasing and production	157	153	4
Sales, marketing and service	106	109	(3)
Management and administration	93	97	(4)
Research and development	203	206	(3)
Apprentices	41	44	(3)
Total employees	**600**	**609**	**(9)**

Personnel expenses in the Adtran Networks SE slightly increased from EUR 60.1 million in 2023 to EUR 60.2 million in 2024, representing 14.1% of revenues in 2024 compared to 11,8 % in 2023.

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 (with a global Works Council - Adtran Networks SE 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 41 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 14 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[21] framework and the ISO[22] 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, Inc. 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 Holdings, Inc. measures the accomplishment of its strategic goals against revenues and adjusted EBIT[23]. These metrics represent the key performance indicators.[24] Adtran Holdings management board sets target values for these metrics for the year to come and measures actual values against the target values for revenues and adjusted EBIT on a quarterly basis and annually. 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 quarterly and yearly reports. Key performance indicators on the Adtran Networks’ level are revenues, pro forma EBIT and net cash. All of these metrics are measured 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,

[21] 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.
[22] 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).
[23] Adjusted EBIT is defined as the earnings of the Adtran Holdings group before interest and taxes, determined on the basis of results and adjusted for restructuring costs, acquisition-related costs and amortization of intangible assets, share-based compensation expenses, the non-cash change in fair value of equity interests held under the deferred compensation plan, and any other non-GAAP items approved by the Compensation Committee.
[24] Unaudited information

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.

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. Management provides Audit Committee with the Risk Report at least once per year. The overall responsibility for risk early warning system lies with the management board.

Based on the outlined analytical tools and processes, Adtran Networks ranked 17 risks as major risks at the end of 2024, 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. In case aggregated risk assessment exceeds risk bearing capacity, the management board is immediately informed to initiate counter measures and to reduce the risk exposure.

Both the internal control system and the risk management system are subject to continuous monitoring of processes and systems. Where weaknesses have been identified, appropriate improvement measures have been implemented to address them and to ensure the ongoing enhancement of these systems and processes.

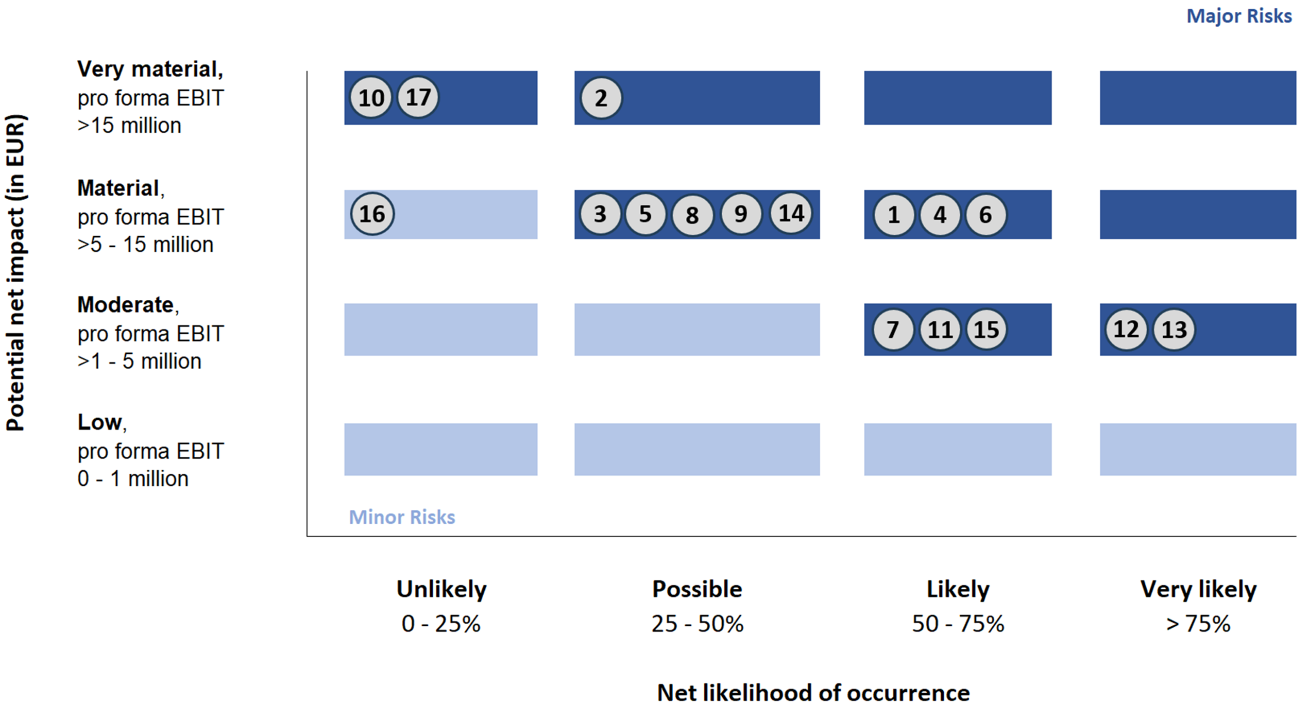
Based on an overall assessment of the adequacy and effectiveness of the internal control and risk management system — taking into account the scope of the company's business activities and its risk environment — there were no indications that these systems are inadequate or ineffective.[25]

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.

[25] The disclosures in this paragraph are so-called non-management report disclosures. This is unaudited information.

Major risks 2025-2027

1. Geopolitical risks
2. Global economic slowdown (Macroeconomic risks)
3. Uncompetitive product cost
4. Uncompetitive product(s) due to delayed release(s)
5. Uncompetitive product due to technological disruption
6. Financial Risk
7. Excessive or obsolete inventory
8. Inability to retain the talent
9. Legal. Increased exposure to broader regulatory requirements
10. Unsatisfying supplier and manufacturing quality
11. Ransomware, Phishing attack, denial of service attack
12. Exchange rate risks
13. Cybersecurity – product security
14. Risk of operational supply gaps
15. Compliance violations
16. Inability to perform product introductions / homologations
17. Risk of going concern due to financial interdependence and DPLTA obligations



Growth and profitability risks

Geopolitical risks

likely; material (previous year - 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.

Increase of the probability of the risk is connected with the recent announcement dof the new US administration introduces uncertainty regarding future trade relations between the United States and Europe. Changes in trade policy and an expected protectionism could lead to the imposition of new tariffs, non-tariff barriers, or stricter regulatory requirements affecting transatlantic trade. The change of US administration could also exacerbate trade tensions between the U.S. and China. Potential policy actions may include the introduction of higher tariffs, enhanced export restrictions, or additional trade barriers targeting specific sectors, including high-tech industries. Decrease of the impact is explained by fact, that despite potential protectionist measures, demand for broadband and telecommunication infrastructure remains high; the sector is more resilient, which helps buffer the potential revenue loss. In addition, Adtran Networks has engaged in cost-reduction programs and streamlined operations, which reduce the bottom-line impact of any added duties or supply chain hurdles.

Macroeconomic risks
possible; very material (no changes since the last year)

As an international player, Adtran Networks SE is exposed to the economic cycles of many countries and territories worldwide. Economic downturns may lead to reduced demand for telecommunication equipment and, subsequently, a reduction in revenues and margins.

The performance of Adtran Networks faced significant challenges during 2023-2024. During the global semiconductor crisis many customers had built up large inventories to mitigate supply chain risks and were depleting these stocks during the last two years. At the end of 2024 customer demand recovered materializing in increasing order intake. Looking into 2025, executive management expects a further recovery in sales driven by improved supply chain conditions and sustained market demand.

Central banks have started relaxing their monetary policies in Europe and the United States, signaling potential support for economic recovery. In Germany, low inflation is expected to persist, with Deutsche Bundesbank projecting an inflation rate of 2.4% in 2025, decreasing to 2.1% in 2026 and 1.9% in 2027. However, inflation trends in the United States remain uncertain. The new U.S. government is expected to launch programs and measures to support and strengthen the U.S. economy. There is a significant risk that these stimuli may cause inflation to grow thus forcing the U.S. Federal Reserve to a stricter monetary policy. Also, new protectionist measures such as higher duties on imported goods are expected to be introduced which will have an impact on global trade and economy.

Adtran Networks will continue to closely monitor macroeconomic developments and will adjust its strategy and tactical direction accordingly.

Financial risks
likely; material (no changes since the last year)

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, complemented the existing set of controls. In 2023, Adtran Networks underwent a comprehensive revision of its financial control systems to ensure compliance with SOX requirements following its integration as a subsidiary of NASDAQ-listed Adtran Holdings. This merger initiated a significant reorganization process, which, by the end of 2024, has made substantial progress. Employees at Adtran Networks now demonstrate a deeper understanding of operational and financial processes, resulting in significant improvements in organizational efficiency and the ‘people factor’ compared to a year ago.

Exchange rate risks
very likely; moderate (new risk)

Exchange rate risk, also known as currency risk, refers to the potential for financial losses due to fluctuations in foreign currency exchange rates. For Adtran Networks this risk manifests in several ways:

1. Transaction Exposure that arises from the company's commitments to receive or make payments in foreign currencies.
2. Translation Exposure that pertains to the consolidation of financial statements from international subsidiaries operating in various currencies into the parent company's euro-denominated financial statements. Exchange rate movements can alter the reported value of assets, liabilities, revenues, and expenses of these subsidiaries, affecting the Company's overall financial position and performance.
3. Economic Exposure also known as operating exposure, this involves the long-term impact of exchange rate changes on the company's future cash flows and market value. For example, a sustained appreciation of a foreign currency where a subsidiary operates can increase local costs and expenses, potentially affecting Adtran Networks' profitability in that region.

Adtran Networks employs various hedging strategies, such as forward contracts, to mitigate transaction and translation exposures. Additionally, Adtran Networks prices products in euros where feasible. At the Adtran Holdings level, currency fluctuations provide a natural hedge, balancing financial exposures across the organization. However, in Adtran Networks there is an exchange rate risk with significant impact on the financial performance, as the company's cost of goods sold is primarily denominated in U.S. dollar while sales are primarily conducted in Euro, British pound, and U.S. dollar.

Increased exposure to broader regulatory requirements
possible; material (no changes since the last year)

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.

Risk of going concern due to financial interdependence and DPLTA obligations
unlikely; very material (this risk was not assessed in the previous year)

Adtran Networks SE operates under a Domination and Profit and Loss Transfer Agreement (DPLTA) with its parent company, Adtran Holdings, Inc. While this agreement provides financial support to Adtran Networks, it also creates a significant interdependence between the two companies. Adtran Holdings, Inc. secured on July 18, 2022 a joint credit facility agreement from a syndicate of banks with a credit limit of up to $400 million. Financial covenants, which refer to financial indicators from the consolidated financial statements of the parent company (Adtran Holdings, Inc.), are part of this credit agreement. The parent company's ability to meet its loan obligations depends on maintaining sufficient cash flow and operational stability. Any financial strain on Adtran Holdings, Inc., such as a breach of loan covenants, could lead to accelerated repayment demands or stricter financial restrictions, potentially impacting its ability to support Adtran Networks, as well as immediate termination of the credit line at the level of Adtran Networks SE.

Additionally, under the DPLTA, Adtran Holdings, Inc. is required to provide equalization payments to minority shareholders of Adtran Networks. If Adtran Holdings, Inc. faces financial difficulties and struggles to meet these obligations, it could result in legal disputes or enforced payments, further exacerbating the parent company's financial challenges.

The management of Adtran Networks has modeled various scenarios regarding the financial and economic development of the Adtran Group and assigned different probabilities to the exercise of the cash compensation right by minority shareholders. Strategic measures aimed at improving profitability, as well as measures to increase liquidity through financing activities and capital release initiatives, were taken into account.

A higher-than-expected redemption of the cash settlement claim could pose risks for Adtran Networks SE, as it could lead to a breach of credit covenants at the level of Adtran Holdings, Inc., resulting in the possible repayment of the credit line granted to Adtran Networks SE. According to current liquidity planning, a breach of the financial covenants at the level of Adtran Holdings, Inc., resulting in the repayment of the credit line granted to Adtran Networks SE, would also result in a liquidity gap at Adtran Networks SE in the first half of 2025. This could result in the possible early termination of the loan granted to Adtran Networks SE. If it is not possible in this situation to obtain a waiver agreement from the banking consortium or to secure financing from a third party, this could lead to a payment default.

To mitigate this going concern risk, both companies are focused on maintaining covenant compliance, enhancing financial and operational performance, and ensuring liquidity planning. Adtran Networks is also exploring measures to strengthen its financial independence and operational resilience, reducing the potential impact of external financial pressures on its business continuity. Due to its potential magnitude, the risk is monitored separately by management.

Portfolio and innovation risks

Uncompetitive product cost
possible; material (no changes since the last year)

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 (no changes since the last year)

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) clustered into technology value streams to maximize effectiveness and break up barriers. All value streams operate according to one common tool-supported development process.

Uncompetitive products due to technological disruption
possible; material (no changes since the last year)

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.

Inability to perform new customer product introductions / homologations
unlikely; material (previous year - 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. The likelihood of this risk has decreased compared to the previous year due to the establishment of a dedicated team, led by the Chief Technical Officer in collaboration with the sales department, to proactively address potential delays in product homologation and network management integration.

Operational efficiency risks

Operational supply gaps caused by interrupted supply chains
possible; material (previous year - 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.

The reduction in the probability assessment reflects a combination of improved supply chain resilience, diversified sourcing, strategic risk mitigation, and easing global supply constraints. While geopolitical risks remain, Adtran Networks' improved preparedness and supply chain flexibility have lowered the immediate risk of operational supply gaps.

Ransomware, phishing attack, denial of service attack
likely; moderate (previous year - very likely; moderate)

The integrity, confidentiality, and availability of our information systems and data remain crucial to the functioning of our business processes and, consequently, to the Company's success. Cyber-attacks against organizations continue to escalate globally in both frequency and sophistication, with midsize companies like Adtran Networks increasingly becoming prime targets.

Germany continues to be significantly affected by cyber extortion attempts. A 2024 survey[26] revealed that cybercrime and sabotage have cost German companies approximately €267 billion in the past year, marking a 29% increase from the previous year. Notably, 70% of the targeted companies attributed the attacks to organized crime, with 81% reporting data theft, including

[26] The source is: www.bitkom.org/sites/main/files/2024-08/240828-bitkom-charts-wirtschaftsschutz-cybercrime.pdf and www.bitkom.org/Bitkom/Publikationen/Studie-Wirtschaftsschutz

customer data, access data, passwords, and intellectual property. In 2024, approximately 52% of German companies within critical sectors, including telecommunications, reported a substantial rise in cyberattacks over the past 12 months.[27]

Cybercrimes are perpetrated by a diverse range of actors, from individual hackers to professional organizations, some operating on behalf of national governments. The motives behind these cyber-attacks are equally varied, encompassing ransom extortion, industrial espionage, and sabotage. 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.

Adtran Networks employs a comprehensive, multi-layered approach to cybersecurity, combining advanced technology with proactive measures. The strategy includes 24/7/365 SOC monitoring by CrowdStrike, enhanced email security, Next-Gen firewall architecture, and continuous vulnerability scanning for public-facing systems, complemented by internal scans every 30 days. Key tools like CryptoSpike for storage protection, Endpoint Detection and Response (EDR), and DDoS-protective firewalls bolster defenses. Regular backups, software updates, and quarterly cybersecurity training enhance preparedness, while credential protection and specialized identity security tools further safeguard against identity-based threats. This robust framework ensures round-the-clock protection against evolving cyber risks.

Data breach or network/service outages due to a security issue in deployed products very likely; moderate (no changes since the last year)

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.

[27] The source is: Statista.com. "How have the number of cyberattacks on your company developed in the past 12 months?"

Excessive or obsolete inventory
likely; moderate (previous year - 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. In 2024 Adtran Network conducted highly detailed review of the stocks in hand. The Company reduced its stock-levels down to match the updated forecasts.

Unsatisfying supplier and manufacturing quality
unlikely; very material (no changes since the last year)

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. Adtran Networks conducts continuous and thorough monitoring and analysis of product quality KPIs and reviews customer escalations weekly for timely resolution. Quality personnel are dedicated to each product unit and monitors the entire lifecycle of Adtran Networks' hardware and software. Internal and external audits are performed to ensure TL/ISO compliance and that our processes support robust quality practices.

People and culture risks

Inability to retain the talent with the competencies required to meet key objectives
possible; material (no changes since the last year)

The ongoing digital transformation is advancing rapidly, exacerbating the global shortage of skilled talent, particularly within the technology industry. While competition for talent is most pronounced in developed economies, it remains a challenge worldwide, also because of demographic developments. Adtran Networks faces increasing pressure to retain and develop its workforce to safeguard the critical knowledge, skills, and relationships necessary for the development, selling, and maintenance of its innovative products and solutions.

Following the 2023 merger of ADVA and Adtran, Adtran Networks is currently in a post-merger integration phase. Organizational changes and synergies inherent to such mergers can bring some degree of uncertainty among employees, while the blending of two corporate cultures presents additional challenges. Moreover, the integration of systems and processes can lead to increased workloads and stress, further contributing to potentially decreased employee motivation levels and attrition.

Temporary constraints in attracting new talent may arise as some individuals prioritize stability over an evolving work environment. However, organizational transformation can also appeal to highly motivated and creative professionals seeking dynamic career development opportunities. To address these challenges, Adtran Networks remains committed to meeting employee expectations by offering a range of flexible work models, personal and professional development opportunities and fostering a supportive, innovative workplace culture.

Compliance violations
likely; moderate (previous year - 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.

Adtran Networks also recognizes the potential for legal claims or proceedings arising from allegations of harassment or discrimination in the workplace. Such claims may be initiated by employees, customers, or other stakeholders and can involve matters related to gender, race, age, sexual orientation, religion, disability, or other protected characteristics. Key factors contributing to this risk include the absence of clearly defined and communicated policies, a workplace culture that fails to address inappropriate behavior, and insufficient efforts to advance diversity, equity, and inclusion within the organization.

To mitigate this risk, Adtran Networks has implemented robust measures, including the development and enforcement of comprehensive anti-harassment and anti-discrimination policies. The company ensures accessible, confidential reporting mechanisms are in place and encourages a "speak-up culture" through its Code of Conduct and 24/7 Whistleblower Hotline. Furthermore, all reported incidents are addressed through a prompt, fair, and impartial investigation process, reinforcing the organization's commitment to a safe, inclusive, and respectful work environment.

Minor and financial risks

Beyond the discussed 17 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 2024

The overall composition of Adtran Networks' major risks remains largely unchanged compared to the previous year. The following key risks have remained consistent since their assessment in 2023: Geopolitical Risks, Global Economic Slowdown, Uncompetitive Products Due to Delayed Releases, Inability to Retain Talent, Exposure to Broader Regulatory Requirements and Persistent Multiple Product Issues.

Conversely, the assessment of seven risks has decreased due to the implementation of effective risk-mitigation measures: Financial Risk, Excessive or Obsolete Inventory, Cyber Risks, Data Breach of Deployed Products, Risk of Operational Supply Gaps, Compliance Violations, and Inability to Perform New Product Homologations.

Only two risks have seen an increase in their assessment: Uncompetitive Product Cost and Uncompetitive Product Due to Technological Disruption.

Of the 17 risks identified in this report, 16 were already included in the Company's Risk & Opportunity Report 2023. The Exchange Rate Risk, although newly introduced in 2024, was not previously included in the 2023 report, despite its risk level remaining unchanged. The going concern risk related to DPLTA obligations was first disclosed in the 2024 annual report and was neither identified nor assessed in 2023.

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 (no changes since the last year)

The Covid-19 pandemic and global supply chain disruptions have underscored the critical role of digitization and secure communication networks in the economy. Meanwhile, escalating geopolitical tensions have prompted a reevaluation of strategies in both 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, particularly Huawei, 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. Expanding 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 (no changes since the last year)

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 educates traditional broadband-only customers of Adtran and has started to win cross-selling opportunities.

Additional demand for bandwidth and services through artificial intelligence (AI)
likely; material (no changes since the last year)

Artificial intelligence could become the catalyst for a new optical network build cycle. The largest cloud service providers are constructing gigawatt AI training centers, and communication service providers (CSPs) are responding with connectivity at hundreds of Terabit/s scale. There is a significant bandwidth opportunity to connect the enterprise data lakes with the AI training centers. Optical transport solutions play a pivotal role in supporting emerging AI-driven middle-mile networks by addressing the unique demands of artificial intelligence workloads. In addition to the bandwidth opportunity, Adtran Networks sees that more and more customers are using the company's range of services in the planning, construction and commissioning phase of their high-capacity networks. The company is continuously expanding its service catalog, for example using machine learning 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 (no changes since the last year)

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™[28] 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 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.

[28] Brand name for Adtran Networks' encryption technology, implemented in many of the company's products.

New markets for synchronization solutions
very likely; material (no changes since the last year)

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[29] failures has become 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 product portfolio.

Expansion of addressable market and share gains through decarbonization
possible; material (no changes since the last year)

The climate change and resulting threats to our planet are largely driven by the high global CO2 emissions. 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, communication technology enables numerous economic processes, as well as processes of daily life to function with significantly less mobility. Home office and video conferencing significantly reduce 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 is making considerable efforts to sustainably improve the energy efficiency of its products and operational processes, which are yielding noticeable results. 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 CO2 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 (no changes since the last year)

Vendor consolidation in optical networking technology will continue. Nokia announced on June 27, 2024, that it will acquire Infinera, a supplier of optical networking solutions, in a $2.3 billion deal. The acquisition further reduces the number of competitors in that space and will dilute Nokia's European profile. Adtran Networks is the remaining European specialist in open optical networking technology and has built a positive reputation among its customer base. 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.

Vertical integration for cost reductions in product components and new markets
likely; moderate (no changes since the last year)

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. On the other hand, 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, a global leader in materials, optics, and lasers, will make an increasing contribution to consolidated revenues and margins in 2025 and beyond, with strong growth potential.

Exchange rate opportunities
very likely, material (new chance)

As explained above in "exchange rate risks", at present, major uncertainties exist about the future development of foreign currency exchange rates relevant for Adtran Networks. These can have a negative as well as a positive impact on Adtran Networks' revenues and results. As Adtran Networks plans the foreign exchange rates at the budgeting time at expected balanced rates, there are equal risks and opportunities resulting from foreign exchange.

[29] 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 2024

The company sees itself well positioned to take advantage of various market opportunities, which include increasing demands driven by broadband stimulus, artificial intelligence (AI), information security requirements, and high-precision synchronization required by new customer groups. The efforts of the western developed countries to remove Huawei and ZTE equipment from their networks continue to provide additional opportunities in a consolidating market. With its well-rounded portfolio of hardware, 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 higher than the one at the time of the publication of the prior year’s combined management report. For the risks related to the joint loan agreements with Adtran Holdings, Inc., please refer to the risk description in the section “uncertainties related to the going concern” in note (2) of the notes to the consolidated financial statements and to the description of the “risk of going concern due to financial interdependence and DPLTA obligations” in the section “risks and opportunities”.

During the first half year 2025, the aggregated risk exceeds the risk bearing capacity. In the remote case that many major risks occur simultaneously and that the damages range on the upper end of the estimations, Adtran Networks SE might run into default. Although the management board considers this scenario as very unlikely, the development of risks and the risk bearing capacity are closely monitored.

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. In 2024 SOX controls were improved and optimized. 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[30].

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.

[30] Unaudited information

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.

2024 was one of the most difficult years in the company's history. After the end of the semiconductor crisis and the subsequent normalization of operations and international supply chains, customers' willingness to place orders early and maintain their own risk inventories declined. Customer inventory optimization, combined with hesitant network expansion, led to unusually low and sometimes unpredictable order intake. Furthermore, the persistently high interest rates and borrowing costs negatively impacted customers' willingness to invest.

This complex situation resulted in a decline of annual revenues to EUR 438.1 million in the Adtran Networks group. This 28.6 % decline had a negative impact on the company's profitability and resulted in a pro forma EBIT margin of negative 2.3 %. As stated in the Annual Financial Report 2023, Adtran Networks forecasted- for 2024 a revenue decline of about 25% vs. the prior year as well as a pro forma EBIT in a similar range as in 2023. Despite of the gross margin improvement from 36,1% in 2023 to 37,3% in 2024 resulting from a series of cost reduction measures, and a reduction of operational expenses from EUR 181,5 millions to 167,9 millions, pro forma EBIT ended up in a negative amount compared to positive EUR 39.8 millions or 6,5% of revenues in 2023.

Net debt for Adtran Networks group at the end of fiscal year 2024 was EUR 6.6 million, compared to EUR 42.4 million in the previous year exceeding the forecast of the 2023 Annual Financial Report which assumed a net debt in in the low to mid million range. This significant improvement is primarily due to a reduction in working capital. Moreover, there was a substantial intercompany receivable against Adtran Holdings, Inc. resulting from the loss sharing.

Looking ahead to business development in 2025, the management board expects an improvement in general demand across all product areas. While the still tense political climate, the new US administration's tariff policy, and the comparatively high interest rate level continue to cause uncertainty in the market, it is imperative that progress is made in expanding the communications infrastructure and securing critical infrastructure. Furthermore, new technologies and business models, such as the use of generative AI, are generating additional bandwidth requirements in data networks that can only be met through further investments in network expansion.

In recent years, Adtran Networks has increasingly focused and comprehensively prepared itself technologically for the transformation of networks with the aspects of AI, cloud, mobility, 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 10.3 billion[31] in 2024 and will grow to USD 12.5 billion by 2028.

Against the backdrop of the aforementioned factors and taking into account the planning parameters, personnel, and exchange rates, the management board expects a revenue growth in the high single-digit or low double-digit percentage range for 2025 for the Adtran Networks group. The Management Board also assumes that, due to the OPEX adjustments achieved in 2024 and ongoing, strict cost control, pro forma EBIT will grow from a negative single-digit percentage in 2024 to a positive single-digit percentage in 2025. The company's objective is rapid debt reduction and consistent compliance with the defined capital management objectives, which are described in Note (36) to the consolidated financial statements. The management board expects the net debt of EUR 6.6 million as of December 31, 2024, to be reduced, or to convert it into a net liquidity position in 2025.

Actual results may differ significantly from expectations if risks materialize or if planning assumptions prove unrealistic. The group's material risks are explained in the “risk and opportunity report” section.

[31] World market excluding China for Metro and Backbone WDM (Omdia, “Optical Networks Forecast”, published November 2024), Access Switching and Ethernet Demarcation, (Omdia: “Service Provider Switching and Routing Forecast”, September 2024) and network synchronization (Adtran Networks own estimates)

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 23 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 2024 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 28, 2025

Thomas R. Stanton

Christoph Glingener Ulrich Dopfer

Adtran Networks SE, Meiningen – Financial Statements for the Financial Year January 1 to December 31, 2024

Balance sheet on December 31, 2024

(in thousands of EUR)	Note	31.12.2024	31.12.2023
Assets			
A. Fixed Assets	(1)	**249,032**	**219,169**
I. Intangible assets			
1. Self-produced industrial property rights and similar rights and assets, and licenses in such rights and assets	(2)	122,251	123,535
2. Purchased concessions, industrial property rights acquired for consideration and similar rights and assets	(3)	11,971	5,413
3. Advance Payments		8,065	1,799
		142,287	**130,747**
II. Property, plant and equipment			
1. Land, land rights and buildings, including buildings on third-party land		11,569	11,392
2. Plant and machinery		7,488	8,082
3. Other equipment, furniture and fixtures		579	671
4. Payments on account and assets under construction		10	1,715
		19,646	**21,860**
III. Financial assets			
1. Shares in affiliated companies	(4)	68,782	64,762
2. Loans to affiliated companies	(5)	18,317	1,800
		87,099	**66,562**
B. Current Assets		**227,532**	**240,524**
I. Inventories			
1. Raw materials, consumables and supplies		21,652	25,829
2. Work in process		159	5,432
3. Finished goods and merchandise		33,956	37,954
4. Payments on account		36,390	48,908
		92,157	**118,123**
II. Receivables and other assets			
1. Trade accounts receivable	(6)	48,649	60,884
2. Receivables from affiliated companies	(7)	80,125	49,585
3. Other current assets	(8)	2,389	3,892
		131,163	**114,361**
III. Cash at banks and in hand		**4,212**	**8,040**
Prepaid expenses and deferred charges		**1,885**	**2,842**
Total assets		**478,449**	**462,535**

Balance sheet on December 31, 2024

(in thousands of EUR)	Note	31.12.2024	31.12.2023
Equity and liabilities			
A. Equity	(9)		
I. Subscribed capital		52,055	52,055
(Conditional capital EUR 3,491 thousand) (prior year: EUR 3,541 thousand)			
II. Capital reserve		46,892	46,335
III. Retained earnings			
Other retained earnings		2,551	2,551
IV. Accumulated profit		177,438	177,438
		278,936	**278,379**
B. Provisions			
1. Provisions for pension and similar obligations	(10)	1,011	998
2. Tax provisions	(11)	358	193
3. Other provisions	(12)	16,179	20,845
		17,548	**22,036**
C. Liabilities	(13)		
1. Liabilities to banks		52,795	4,151
2. Advance payments received		1,022	837
3. Trade accounts payable		22,226	21,017
4. Liabilities to affiliated companies	(7)	76,858	118,684
5. Other liabilities		3,544	2,707
thereof for taxes		*1,272*	*1,393*
thereof for social security		*236*	*185*
		156,445	**147,396**
D. Deferred income		**14,515**	**14,724**
E. Deferred tax liabilities	(14)	**11,005**	**0**
Total equity and liabilities		**478,449**	**462,535**

Income statement for the period from January 1 to December 31, 2024

(in thousands of EUR)	Note	2024	2023
1. Revenues	(15)	302,087	431,253
2. Cost of goods sold	(16), (17)	191,231	269,991
3. Gross profit		**110,856**	**161,262**
4. Selling and marketing expenses	(17)	41,255	41,083
5. General administrative expenses	(17)	20,768	24,744
6. Research and development expenses	(2), (17)	110,390	119,581
7. Other operating income	(18)	21,445	18,798
thereof currency translation		*9,647*	*13,917*
8. Other operating expenses	(19)	11,663	17,444
thereof currency translation		*11,522*	*17,413*
9. Operating income (EBIT)		**(51,775)**	**(22,792)**
10. Income from investments	(20)	18,179	10,854
thereof from affiliated companies		*18,179*	*10,854*
11. Income from other securities and loans classified as financial assets		121	96
thereof from affiliated companies		*121*	*96*
12. Other interest and similar income		1,765	43
thereof interest income from discounting		*1,765*	*43*
13. Amortization from financial asset	(21)	—	9,490
14. Interest and similar expenses		4,329	2,222
thereof interest expenses from compounding		*0*	*0*
15. Tax expense (benefit) net	(22)	11,690	420
thereof deferred taxes		*11,005*	*0*
16. Result after taxes		**(47,729)**	**(23,931)**
17. Other tax expense (benefit), net		6	3
18. Income from loss transfer		47,735	23,934
19. Net profit for the year		**0**	**0**
20. Profit carried forward		177,438	177,438
21. Accumulated profit		**177,438**	**177,438**

Notes to the financial statements 2024

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 2024 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. In the case of options, disclosures have been made in the notes for the sake of clarity.

Uncertainties related to the going concern

Adtran Networks SE's financing is closely connected with the financing of its parent company, Adtran Holdings, Inc. In addition to the existing domination and profit and loss transfer agreement (DPLTA), a joint credit facility agreement was concluded in 2024, which makes Adtran Networks SE dependent on the development of the parent company.

Adtran Networks SE participates together with Adtran Holdings, Inc. in a credit facility agreement (Senior Secured Credit Facility) concluded with a banking syndicate. Financial covenants relating to key financial figures from the consolidated financial statements of the parent company (Adtran Holdings, Inc.) are part of this credit agreement. In case of a breach of the financial covenants, there is a risk that Adtran Networks SE's credit facility, which was utilized in the amount of EUR 46,917 thousand as of December 31, 2024, may become due.

As noted in the risk report section of Adtran Holdings, Inc.’s annual financial report as of December 31, 2024, published on March 4, 2025, minority shareholders of Adtran Networks SE have the option, under the domination and profit and loss transfer agreement pursuant to Section 305 of the German Stock Corporation Act (AktG), to transfer shares to Adtran Holdings, Inc. in return for a cash settlement of EUR 17.21 per share. A number of minority shareholders initiated a review of the amount of the cash settlement offered as part of so-called award proceedings. The conclusion of these proceedings is not expected within the forecast period of twelve months. The market price of Adtran Networks SE shares is currently significantly higher than the amount of the cash settlement offered, which makes a cash settlement currently unprofitable for investors. Therefore, the management of Adtran Holdings, Inc. does not currently expect a high redemption rate with regard to the cash settlement claim pursuant to Section 305 of the AktG.

In the unlikely event that all minority shareholders would simultaneously exercise their right to cash compensation, a payment obligation of approximately EUR 333.2 million, including interest, would arise, as stated in the annual financial report of Adtran Holdings, Inc. At the time of publication of the report, Adtran Holdings, Inc. did not have sufficient liquidity to settle all cash compensations.

Adtran Networks SE's cash and cash equivalents as of December 31, 2024, amounted to EUR 27,040 thousand. In addition, at the same time, loans to Adtran, Inc., a subsidiary of Adtran Holdings, Inc., amounting to EUR 16,429 thousand and receivables from the profit transfer 2024 amounting to EUR 47,103 thousand were recorded against Adtran Holdings, Inc. The liability under Adtran Networks SE’s Senior Secured Credit Facility amounted to EUR 46,917 thousand as of December 31, 2024.

As outlined in the risk and opportunity report of the combined management report of the Adtran Networks Group, scenarios were modeled to reflect different possible financial and economic developments for the Adtran Group and different probabilities of minority shareholders exercising their right to cash compensation. Strategic measures to increase profitability as well as measures to increase liquidity through financing and capital release measures were taken into account. A higher-than-expected redemption of the cash compensation claim could pose risks for Adtran Networks SE, as this could lead to a breach of credit conditions at the level of Adtran Holdings, Inc., resulting in the credit line granted to Adtran Networks SE becoming due. According to current liquidity planning, a breach of the financial covenants at the level of Adtran Holdings, Inc., resulting in the credit line of Adtran Networks SE becoming due, would also result in a liquidity gap for Adtran Networks SE in the first half year 2025. If Adtran Networks fails to obtain a waiver from the banking consortium, does not receive an alternative financing from a third party, or is unable to release cash from owned assets, this instance could lead to a default.

The aforementioned events and circumstances demonstrate that a material uncertainty exists that may cast significant doubt on Adtran Networks' ability to continue as a going concern, and as a result the Company, and consequently the Group, may not be able to realize its assets and meet its liabilities in the ordinary course of its business.

However, as explained above, we consider this risk to be low.

The separate financial statements were prepared on the going concern assumption.

Financial covenants

The bank loan of EUR 46,917 thousand (USD 49,000 thousand) reported in the balance sheet as non-current financial debt has a contractually fixed term until July 18, 2027. Aside from customary covenants related to representations and warranties, information requirements, among others, Adtran Holdings, Inc. is subject to specific financial covenants which are tested on a group, consolidated basis at the Adtran Holdings, Inc. level.

Adtran Holdings, Inc. must maintain a net leverage ratio, defined as senior secured indebtedness less up to USD 75 million in cash, divided by adjusted EBITDA for the past 12 months, not exceeding 3.25 at each measurement date. As of December 31, 2024, Adtran Holdings, Inc.'s net leverage ratio was 2.23.

Additionally, Adtran Holdings, Inc. is required to maintain a fixed charge coverage ratio of at least 1.25, calculated as adjusted EBITDA minus taxes, divided by interest and amortization charges. As of December 31, 2024, this ratio stood at 2.20.

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, 2024 were authorized for issue in accordance with a resolution of the management board on April 28, 2025.

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. Adtran Networks SE is controlled by Adtran Holdings, Inc., Huntsville, Alabama, USA, as the direct parent company. The consolidated financial statements in accordance with US GAAP of the parent company Adtran Holdings, Inc. can be found on the following website https://investors.adtran.com/financials/annual-reports/default.aspx.

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.

In previous financial years, an acquired customer base was amortized over a useful life that was too short. The correction of the useful life was carried out on an ongoing basis in accordance with IDW RS HFA 6 and resulted in a write-up of EUR 2.5 million. A write-up in the previous year would have resulted in a write-up of EUR 2.1 million.

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 9,75 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 10 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 as other assets if the company meets the material requirements for the grant on the balance sheet date and has submitted or is almost certain to submit the necessary applications by the time the balance sheet is prepared. Grants that have already been disbursed before the material conditions for awarding them have been met are reported under other liabilities until they are used for their intended purpose. Expense-related grants are only recognized as income when the conditions associated with the grants are met. Grants for an asset are recognized in the balance sheet as a reduction in acquisition and production costs and therefore result in lower depreciation over the useful life.

Research and development projects

The company makes use of the capitalization option in accordance with Section 248 (2) S 1 HGB. Development costs for new products are capitalized at acquisition and production cost, provided that the requirements for capitalization in accordance with GAS 24 para. 45 are met. The eligibility for capitalization is essentially based on the assessment of the legal representatives that the technical feasibility has been proven and that the development project will generate an inflow of economic benefits.

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.

Depreciation is recognized on a straight-line basis from the start of production of salable products over the estimated sales periods of the products, which are generally between three and five years.

Completed and ongoing development projects are tested for impairment on the balance sheet date and at other reporting dates defined in the product life cycle. The impairment test is carried out on the basis of a net present value-oriented procedure. If necessary, impairment losses are recognized.

Research costs are expensed as incurred.

Financial assets

Shares and loans in affiliated companies and loans as well as investments are measured at cost plus incidental acquisition costs less impairment losses in the event of permanent impairment. The fair value is determined on the basis of the discounted cash flow method.

Inventories

Inventories are recognized at acquisition or production cost, taking into account incidental acquisition costs and purchase price reductions, or at the lower of market or fair value. Acquisition costs are determined using the average cost method. Production costs are determined taking into account the direct material and production costs, the depreciation of fixed assets and pro rata overheads, if caused by production. General administrative overheads and interest on borrowed capital are not included directly in production costs. Advance payments are recognized at nominal value.

Work in progress was reported in previous financial years. Work in progress is inventory for which wages and overheads have already been incurred after processing or finishing within the company, but which is not yet ready for sale. The parts reported in previous financial years are purchased parts from contract manufacturers that have not been worked or processed at Adtran Networks SE. They are raw materials, consumables and supplies. The change in recognition in the amount of EUR 1.4 million (previous year: EUR 5.4 million) was carried out as a correction in the current account in accordance with IDW RS HFA 6.

Furthermore, materials from a spare parts warehouse were reported under other assets in previous financial years. The materials are in a ready-for-sale condition and are to be reported as finished goods. The change in presentation in the amount of EUR 2.1 million (previous year: EUR 2.3 million) was carried out as a correction in the current account in accordance with IDW RS HFA 6.

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.

Cash and cash equivalents

Cash in hand and bank balances in euros are recognized at nominal value, while those in foreign currencies are translated at the spot exchange rate on the balance sheet date.

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.

Liabilities to banks also include financial liabilities from a factoring agreement. Due to the legal assignment of the receivables, this amount is fully collateralized. The trade receivables sold under this agreement continue to be recognized at Adtran Networks SE, as the material default risk is not transferred despite the sale until the receivables are settled.

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 valuation units within the meaning of Section 254 HGB are formed.

The accounting of share-based payment plans is not explicitly regulated in the German Commercial Code. The company accounts for the timing and amount of share-based remuneration in accordance with German commercial law (HGB) in accordance with International Reporting Standard 2 (IFRS 2).

The parent company of Adtran Networks SE, Adtran Holdings, Inc., grants share-based payments (equity instruments, restricted stock units and performance stock units) to the managers of Adtran Networks SE. From the perspective of Adtran Networks SE, all existing share-based payment plans are equity-settled share-based payment agreements, as it is not Adtran Networks SE but Adtran Holdings, Inc. that has the obligation to deliver shares in Adtran Holdings, Inc. to the beneficiaries, resulting in personnel expenses on the one hand and an increase in capital reserves on the other. It was agreed with Adtran Holdings, Inc. that the expenses actually incurred would be charged on. From the perspective of Adtran Networks SE, this represents a liability to affiliated companies that is recognized directly in equity due to the shareholder relationship.

Revenues

Sale of goods

Revenue is recognized 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 on the sale of goods and the provision of services are recognized as a reduction in revenue.

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., 2024
AUD	1.6396
BRL	5.8017
CAD	1.4817
CHF	0.9524
CNY	7.7859
GBP	0.8466
HKD	8.4426
ILS	4.0029
INR	90.5291
JPY	163.7256
PLN	4.3052
SEK	11.4320
SGD	1.4457
USD	1.0820

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, 2024, is disclosed in the following schedule:

	Accumulated Historical cost						Accumulated depreciation				Net book values	
(in thousands of EUR)	Jan. 1, 2024	Additions	Investment funding	Disposals/ retirements	Reclassi- fications	Dec. 31, 2024	Jan. 1, 2024	Additions*	Disposals/ retirements	Dec. 31, 2024	Dec. 31, 2024	Dec. 31, 2023
I. Intangible assets												
1. Self-produced industrial property rights and similar rights and assets, and licenses in such rights and assets	392,942	** 39,953	125	—	—	432,770	269,407	41,112	—	310,519	122,251	123,535
2. Purchased concessions, industrial property rights acquired for consideration and similar rights and assets	64,817	7,724	—	13	2,899	75,427	59,404	4,065	13	63,456	11,971	5,413
3. Goodwill	284	—	—	—	—	284	284	—	—	284	—	—
4. Advance payments	1,799	7,529	—	—	(1,263)	8,065	—	—	—	—	8,065	1,799
	459,842	**55,206**	**125**	**13**	**1,636**	**516,546**	**329,095**	**45,177**	**13**	**374,259**	**142,287**	**130,747**
II. Property, plant and equipment												
1. Land, land rights and buildings including buildings on third-party land	19,466	887	—	—	13	20,366	8,074	723	—	8,797	11,569	11,392
2. Plant and machinery	52,151	2,944	122	1,891	52	53,134	44,069	3,430	1,853	45,646	7,488	8,082
3. Other equipment, furniture and fixtures	5,765	268	—	66	2	5,969	5,094	362	66	5,390	579	671
4. Payments on account and assets under construction	1,715	(2)	—	0	(1,703)	10	—	—	—	—	10	1,715
	79,097	**4,097**	**122**	**1,957**	**(1,636)**	**79,479**	**57,237**	**4,515**	**1,919**	**59,833**	**19,646**	**21,860**
III. Financial assets												
1. Shares in affiliated companies	76,183	4,020	—	—	—	80,203	11,421	—	—	11,421	68,782	64,762
2. Loans to affiliated companies	1,800	*** 17,071	—	554	—	18,317	—	—	—	—	18,317	1,800
3. Investments	1,374	—	—	—	—	1,374	1,374	—	—	1,374	—	—
	79,357	**21,091**	**—**	**554**	**—**	**99,894**	**12,795**	**—**	**—**	**12,795**	**87,099**	**66,562**
Total	**618,296**	**80,394**	**247**	**2,524**	**0**	**695,919**	**399,127**	**49,692**	**1,932**	**446,887**	**249,032**	**219,169**

*Thereof depreciation of additions EUR 7,831 thousand in period 2024.

**In 2024, borrowing costs of EUR 1,214 thousand (2023: EUR 1,154 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 3.76 %. The additions include EUR 37 thousand of own capitalized development costs.

***Thereof EUR 3 thousand of additions and EUR 591 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)	2024	2023
Research expenses	6,890	4,009
Development expenses	140,115	161,392
Research & Development expenses	**147,005**	**165,401**
Thereof capitalized development projects	(36,615)	(45,820)
Total research & development expenses in the income statement	**110,390**	**119,581**

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)	2024	2023
Self-generated industrial property rights and similar rights and assets as at 01 Jan.	**392,942**	**347,122**
Additions from capitalization of development costs including capitalized interest on borrowings	36,615	45,820
Additions from other development services	3,338	0
Investment promotion	125	0
Total additions for the year	**39,828**	**45,820**
Self-generated industrial property rights and similar rights and assets as at 31 Dec.	**432,770**	**392,942**

(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. The company recognized a software license in prepaid expenses in the 2022 financial year. The acquired software license meets the requirements for capitalization in fixed assets. In accordance with IDW RS HFA 6, a balance sheet reclassification to other capitalized licenses for software programs in the amount of EUR 1,696 thousand (previous year: EUR 4,238 thousand) was carried out in the current account. In previous financial years, an acquired customer base was amortized over a useful life that was too short. The useful life was corrected on an ongoing basis in accordance with IDW RS HFA 6, resulting in a write-up of EUR 2.5 million. A write-up in the previous year would have resulted in a write-up of EUR 2.1 million.

(in thousands of EUR)	Dec. 31, 2024	Dec. 31, 2023
Customer Relationship MRV	2,710	1,649
Other Software licenses	9,173	2,626
Purchased technology MRV Israel	88	1,138
Total	**11,971**	**5,413**

(4) Shares in affiliated companies

On December 31, 2024, Adtran Networks SE held directly or indirectly shares in 19 (December 31, 2023: 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	81,863	(7,688)	— %	100 %
Adtran Networks (UK) Ltd., York, United Kingdom (Adtran Networks York)	GBP	9,385	1,370	100 %	— %
Oscilloquartz SA, Saint-Blaise, Switzerland (OSA Switzerland)	CHF	5,863	1,038	100 %	— %
Adtran Networks Spolka z o.o., Gdynia, Poland (Adtran Networks Poland)	PLN	70,198	4,389	100 %	— %
Adtran Networks Israel Ltd., Ra'anana/Tel Aviv, Israel (Adtran Networks Israel)	ILS	12,992	3,151	100 %	— %
Adtran Networks (Shenzhen) Ltd., Shenzhen, China (Adtran Networks Shenzhen)	CNY	35,131	2,551	100 %	— %
Oscilloquartz Finland Oy, Espoo, Finland (OSA Finland)	EUR	327	35	100 %	— %
Adtran Networks Service (Shenzhen) Ltd., Shenzhen, China (Adtran Networks Service)	USD	1,713	174	— %	100 %
Adtran Networks Singapore Pte. Ltd., Singapore (Adtran Networks Singapore)	SGD	2,930	753	100 %	— %
Adtran Networks Hong Kong Ltd., Hongkong, China (Adtran Networks Hongkong)	USD	1,260	56	— %	100 %
Adtran Networks IT Solutions India Private Limited, Gurgaon, India (Adtran Networks India)	INR	370,652	68,299	1 %	99 %
Adtran Networks Serviços Brasil Ltda., São Paulo, Brazil (Adtran Networks Brazil)	BRL	2,909	169	99 %	1 %
Adtran Networks Japan Co., Ltd., Tokyo, Japan (Adtran Networks Japan)	JPY	102,396	3,543	100 %	— %
Adtran Networks AB, Kista/Stockholm, Sweden (Adtran Networks Sweden)	SEK	5,489	1,800	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	1,788	63	— %	100 %
Adtran Networks B.V., Hilversum, Netherlands (Adtran Networks Netherlands)	EUR	349	20	100 %	— %
Adtran Networks Canada Inc., Ottawa, Canada (Adtran Networks Canada)	CAD	4,538	423	100 %	— %
ADVA Network Security GmbH, Berlin, Germany (ANS)	EUR	52,438	5,774	100 %	— %

As the reasons for permanent impairment ceased to apply in 2024 and the fair value exceeded the previous carrying amount, the shares in affiliated companies in four companies was written up by a total of EUR 4,020 thousand. The revaluation is composed as follows:

(in thousands of EUR)	2024
Adtran Networks Israel Ltd., Ra'anana/Tel Aviv, Israel (Adtran Networks Israel)	2,945
Adtran Networks Singapore Pte. Ltd., Singapur (Adtran Networks Singapur)	500
Adtran Networks B.V., Hilversum, Niederlande (Adtran Networks Niederlande)	395
Oscilloquartz Finland Oy, Espoo, Finnland (OSA Finnland)	180
Total on Dec. 31	**4,020**

(5) Loans to affiliated companies

The loans to affiliated companies can be analyzed as follows:

(in thousands of EUR)	2024	2023
Adtran Networks Israel Ltd. Ra'anana, Israel	1,889	1,800
Adtran, Inc., Huntsville, USA	16,428	0
Total on Dec. 31	**18,317**	**1,800**

On June 4, 2024, Adtran Networks SE granted a loan to Adtran, Inc. in the amount of USD 17,121 thousand. The loan has a term of 6 months from July 18, 2027 and bears interest at a margin of 1.00% plus 3-month forward SOFR, which is determined at the beginning of each quarter. The average interest rate for 2024 was 6.27%. The carrying amount of the loan as at December 31, 2024 was EUR 16,428 thousand.

(6) 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.

All 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.

(7) Receivables from and liabilities to affiliated companies

Receivables from affiliated companies consist of trade receivables in the amount of EUR 33,022 thousand (previous year: EUR 25,651 thousand). In 2024, receivables from affiliated companies include a loss absorption amount of EUR 47,103 thousand (previous year: 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 amounting to EUR 76,858 thousand (previous year: EUR 118,684 thousand) include trade payables of EUR 61,858 thousand (previous year: EUR 60,911 thousand), which are due within one year, and a long-term intercompany loan with Adva Network Security GmbH amounting to EUR 15,000 thousand (previous year: EUR 5,000 thousand).

(8) Other current assets

The other assets reported in the balance sheet mainly comprise receivables from the public sector, which are due within one year. This does not include rental deposits amounting to EUR 364 thousand (previous year: EUR 364 thousand), which are also due within five years.

In previous financial years, the company offset receivables from subsidy projects and liabilities from subsidy projects, contrary to the offsetting prohibition under Section 246 (2) sentence 2 HGB. The change in disclosure to EUR 474 thousand (previous year: EUR 466 thousand) was carried out as a correction in the current account in accordance with IDW RS HFA 6.

(9) Equity

Common stock and share capital

On December 31, 2024, Adtran Networks SE had issued 52,054,500 (prior year: 52,054,500) 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. No restrictions are attached to the common shares.

On December 1, 2022, the Company entered into a domination and profit and loss transfer agreement with Adtran Holdings, Inc., based in Wilmington, USA (Division of Corporations of the State of Delaware No. 6141966) as the controlling company, which was approved by the Annual General Meeting by resolution of November 30, 2022. The domination and profit and loss transfer agreement was entered in the commercial register on January 16, 2023. Based on this domination and profit and loss transfer agreement, Adtran Networks SE is obliged to transfer all of its profits to Adtran Holdings, Inc. Subject to the creation or dissolution of reserves pursuant to Section 2 Paragraph 2, the maximum amount permitted under Section 301 of the German Stock Corporation Act (AktG) in its currently applicable version shall be transferred. The holders of the ordinary shares (with the exception of Adtran Holdings, Inc. as the majority shareholder) are entitled to an annual compensation payment (EUR 0.52 net per share) to be made by Adtran Holdings, Inc. under the existing domination and profit and loss transfer agreement. Moreover, under the existing control and profit and loss transfer agreement, the holders of the ordinary shares continue to have the right to sell the shares to Adtran Holdings, Inc. for a cash settlement price of EUR 17.21.

There are no further restrictions with regard to ordinary shares.

Capital transactions

In 2024, the exercise of stock option rights did not result in any new shares from conditional capital being issued to employees of the Company or to employees of Group companies (previous year: 50,000 no-par value shares). The nominal value of the shares issued in the previous year in the amount of EUR 50 thousand was added to the subscribed capital. The premium from the exercise of stock options in the previous year in the amount of EUR 296 thousand was recorded in the capital reserve.

Authorized capital

The authorized capital 2019/I expired on May 21, 2024. In the annual shareholder´s meeting on June 28, 2024, a new authorized capital 2024/I in the amount of EUR 26,027 thousand was approved. 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 June 27, 2029, only once or in successive tranches by a maximum of EUR 26,027,250 by issuing new common shares in return for cash or non-cash contributions (conditional capital 2024/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 conditional capital 2011/I remains unchanged on December 31, 2024. Considering the above described capital transactions, the total conditional capital on December 31, 2024 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	Authorized capital 2024/I	Conditional capital 2011/I
Jan. 1, 2024	**52,055**	**24,965**	**—**	**3,491**
Changes due to Annual Shareholders' Meeting resolutions	—	(24,965)	26,027	—
Stock options exercised	—	—	—	—
Dec. 31, 2024	**52,055**	**—**	**26,027**	**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. Additionally, the capital reserve contains one-time compensation expenses related to equity-settled stock option rights issued amounting to EUR 558 thousand.

No stock options were outstanding as of December 31, 2024 (December 31, 2023: 17,500 stock options).

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 177,438 thousand) and the net profit for 2024 of EUR 0 thousand (prior year: EUR 0 thousand) resulted in an accumulated profit of EUR 177,438 thousand (prior year: EUR 177,438 thousand) on December 31, 2024. The accumulated profit is to be carried forward in full to new account.

Restriction of dividend distribution

Profits from the capitalization of internally generated intangible assets less deferred tax liabilities and the income from the changed interest rate for discounting pension provisions are subject to a restriction on distribution.

The following amounts are blocked:

(in thousands of EUR)	2024	2023
Internally generated intangible assets recognized in the balance sheet less deferred tax liabilities relating thereto	86,822	87,735
Change of the average interest rate from pension provisions*	12	—
Total profits blocked for dividend distribution	**86,834**	**87,735**

* 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 Adtran Networks homepage. The table shows the shares of voting rights in Adtran Networks SE that were notified to Adtran Networks SE as of the balance sheet date. The information refers to the most recent notification of a reporting party to Adtran Networks SE. The information regarding the percentage shareholding and voting rights may be outdated.

Date of change in investment	Name of investment owner	Threshold limit	Share of voting rights
Dec. 04, 2024	The Goldman Sachs Group, Inc., Wilmington, Delaware, USA	above 10 %	10.70 %
Apr. 19, 2024	JPMorgan Chase & Co., Wilmington, Delaware, USA	above 3%	3.09 %
Feb. 07, 2024	UBS Group AG, Zürich, Switzerland	below 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 %
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 %

(10) 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, 2024	Dec. 31, 2023
Discount rate	1.50	1.40
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)	2024	2023
Present value of the obligation on Jan. 1	998	949
Interest expense	13	16
Current service cost	111	125
Disbursements to employees	(91)	(84)
Losses arising from changes in financial assumptions	(8)	30
Other changes	(12)	(38)
Present value of the obligation on Dec. 31	**1,011**	**998**

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 12 thousand (prior year: EUR 0 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 103 thousand (previous year: EUR 56 thousand).

(11) Tax provisions

Tax provisions of EUR 358 thousand (prior year: EUR 193 thousand) include expected tax payments due to fiscal authorities applying current tax rates and tax legislation.

(12) Other provisions

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

(in thousands of EUR)	2024	2023
Personnel provisions	2,099	3,142
Invoices not yet received	11,004	12,839
Provision for tax audit	98	97
Vacation provisions	689	682
Warranty provisions	1,253	2,392
Derivative	0	507
Audit fees	1,036	1,186
Total on Dec. 31	**16,179**	**20,845**

(13) Liabilities

The maturity of the liabilities can be analyzed as follows:

(in thousands of EUR) on December 31, 2024	Total	Maturity within one year	more than one year	thereof between one and five years	thereof more than five years
Liabilities to banks	52,795	5,878	46,917	46,917	—
Advance payments received	1,023	1,023	—	—	—
Trade accounts payable	22,226	22,226	—	—	—
Payables to affiliated companies	76,858	61,858	15,000	15,000	—
Other liabilities	3,543	3,543	—	—	—
thereof taxes	*1,272*	*1,272*	—	—	—
thereof social security	*236*	*236*	—	—	—
Total liabilities	**156,445**	**94,528**	**61,917**	**61,917**	**—**

(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**	**94,623**	**52,773**	**52,773**	**—**

Liabilities to banks include financial liabilities from a factoring agreement in the amount of EUR 5,878 thousand (previous year: EUR 4,151 thousand). Due to the legal assignment of the receivables, this amount is fully collateralized. The trade receivables sold under this agreement continue to be recognized at Adtran Networks SE, as the material default risk is not transferred despite the sale until the receivables are settled.

In the 2024 financial year, the company entered into a loan agreement (Senior Secured Credit Facility) of Adtran Holdings, Inc. with Wells Fargo Bank and other lenders as an additional borrower. As at December 31, 2024, Adtran Networks SE had drawn EUR 46,917 thousand (USD 49,000 thousand) from this agreement.

The loan has a term until July 18, 2027 and can be repaid in full or in part at any time. As early repayment by the lender cannot be demanded as long as no contractual conditions are breached, the loan is classified as a non-current liability to banks. The variable interest rate for the loan is 8.77% p.a. as at the current reporting date.

Other liabilities as at December 31, 2024 mainly comprise EUR 176 thousand (previous year: EUR 296 thousand) for bonus payments to employees and members of the Executive Board, EUR 690 thousand (previous year: EUR 490 thousand) for liabilities from licensing agreements, EUR 1,272 thousand (previous year: EUR 1,393 thousand) for withheld taxes and liabilities from funded research and development projects of EUR 1,145 thousand (previous year: EUR 334 thousand).

In previous financial years, the company also offset liabilities from subsidy projects and receivables from subsidy projects, contrary to the offsetting prohibition under Section 246 (2) sentence 2 HGB. The change in the disclosure to EUR 1,145 thousand (previous year: EUR 1,052 thousand) was carried out as a correction in the current account in accordance with IDW RS HFA 6.

(14) Deferred taxes

Deferred taxes are recognized using the liability method on the following temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base as at the balance sheet date. A combined tax rate of 29.00 % (previous year: 28.98 %) was applied when calculating deferred taxes.

As at the 2024 balance sheet date, deferred tax assets totaled EUR 27,344 thousand (previous year: EUR 39,938 thousand) and deferred tax liabilities EUR 38,349 thousand (previous year: EUR 38,475 thousand), resulting in an excess of deferred tax liabilities of EUR 11,005 thousand. The following table shows the composition of deferred taxes:

	2024		2023	
Balance sheet position	DTA	DTL	DTA	DTL
Self-created industrial property rights and similar rights and assets	—	(35,457)	—	(35,805)
Purchased concessions, industrial property rights and similar rights as well as licences to such rights and assets	794	—	1,295	—
Goodwill	3	—	4	—
Inventories	0	(2,461)	—	(2,448)
Trade receivables and receivables from affiliated companies	40	(78)	106	—
Other assets	—	(36)	—	—
Other provisions	2,470	—	3,066	—
Trade payables and liabilities to affiliated companies	328	(317)	—	(218)
Advance payments received on orders	5	—	—	(4)
Other liabilities	—	—	147	—
Liabilities to banks	500	—	—	—
Subtotal	**4,140**	**(38,349)**	**4,618**	**(38,475)**
Loss carryforward	23,204		33,857	
Subtotal	**27,344**	**(38,349)**	**38,475**	**(38,475)**
Netting	(27,344)	27,344	(38,475)	38,475
Balance sheet amount	**—**	**(11,005)**	**—**	**—**

The company did not make use of the capitalization option in accordance with Section 274 (1) sentence 2 HGB, meaning that neither deferred tax assets nor deferred tax liabilities were reported as at the balance sheet date of 31 December 2023 after netting. In the 2023 financial year, an excessively long planning period was used for the realisation of loss carryforwards and a loss year was still included in the calculation of deferred taxes. Correcting for both effects would have resulted in a deferred tax liability of EUR 1.0 million. A correction is made in the current account in accordance with IDW RS HFA 6.

Income statement

(15) Revenues

In 2024 and 2023, revenues include EUR 43,203 thousand and EUR 40,802 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)	2024	2023
Germany	36,294	183,623
Rest of Europe, Middle East and Africa	146,563	100,701
Americas	73,226	96,788
Asia-Pacific	46,004	50,141
Total	**302,087**	**431,253**

(16) 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 115,553 thousand in the financial year 2024 (prior year: EUR 196,526 thousand). Thereof, EUR 113,325 thousand (prior year: EUR 194,221 thousand) relate to expenses for raw materials and supplies and EUR 2,228 thousand (prior year: EUR 2,305 thousand) to costs of services.

(17) 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 2024, personnel expenses of the company, classified pursuant to section 275 paragraph 2 number 6 HGB, amounted to EUR 59,125 thousand (prior year: EUR 60,199 thousand). Thereof EUR 50,716 thousand (prior year: EUR 51,762 thousand) were related to salaries and wages and EUR 8,409 thousand (prior year: EUR 8,437 thousand) were related to costs for social security. For pension plans, EUR 81 thousand (prior year: EUR 324 thousand) were recognized in 2024.

(18) Other operating income

Other operating income can be analyzed as follows:

(in thousands of EUR)	2024	2023
Income from currency translation	9,647	13,917
Grants for research projects	4,489	3,368
Reversal of impairment losses on shares in affiliated companies	4,020	—
Other	3,289	1,513
Other operating income	**21,445**	**18,798**

Other operating income includes a write-up (in accordance with IDW RS HFA 6 in the current account) of EUR 2.5 million due to a correction of the useful life. A write-up in the previous year would have resulted in a write-up of EUR 2.1 million.

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

(in thousands of EUR)	2024	2023
Income from release of provisions	174	23
Income from derecognition of liabilities	39	1,087
Income from release of specific provisions for trade receivables	—	—
Income from the revaluation of the acquired MRV customer base	2,493	—
Others	—	27
Income for other accounting periods	**2,706**	**1,137**

(19) Other operating expenses

Other operating expenses can be analyzed as follows:

(in thousands of EUR)	2024	2023
Expenses from currency translations	11,522	17,413
Other*	141	31
Other operating expenses	**11,663**	**17,444**

* Of this amount, EUR 14 thousand (previous year: EUR 14 thousand) was attributable to expenses unrelated to the accounting period in the 2024 financial year, which mainly resulted from derecognition of other assets.

(20) Income from investments

Income from equity investments of EUR 18,179 thousand (previous year: EUR 10,854 thousand) in the 2024 financial year resulted from dividend distributions from Adtran Networks North America, Inc. (Norcross/Atlanta, USA), Adtran Networks (UK) Ltd (York, United Kingdom) and Adtran Networks (Shenzhen) Ltd (Shenzhen, China).

(21) 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)	2024	2023
Impairment of financial assets of affiliated companies	—	9,490
Amortization from financial assets	**—**	**9,490**

(22) Income taxes

Income taxes comprise corporation tax, solidarity surcharge and trade tax. The tax result also includes foreign income taxes for the company's permanent establishments.

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 28 December 2023 in the form of the Minimum Tax Act (‘MinStG’). The MinStG applies for the first time to financial years beginning after 30 December 2023. Under the MinStG, a supplementary tax is payable for each jurisdiction that has an effective tax rate below 15%. No minimum tax is payable for the 2024 financial year.

Other information

(23) Other financial obligations and contingent liabilities

Other financial obligations can be analyzed as follows:

		Maturity			
(in thousands of EUR)	Total	within one year	more than one year	thereof between one and five years	thereof more than five years
Obligations from rent agreements	6,358	1,540	4,818	2,763	2,055
Obligations from car leasing agreements	1,375	681	694	694	—
Purchase agreements	39,709	35,818	3,891	3,891	—
Other	—	—	—	—	—
Total on Dec. 31 2024	**47,442**	**38,039**	**9,403**	**7,348**	**2,055**

The company has assumed an irrevocable guarantee in the amount of EUR 300 thousand (previous year: EUR 2,184 thousand) for the liabilities of ADVA Optical Networking (India) Private Ltd., Gurgaon, India. The guarantees for the liabilities of Adtran Networks (UK) Ltd., York, United Kingdom (previous year: GBP 1,500 thousand), for the liabilities of Adtran Networks Singapore Pte. Ltd., Singapore (previous year: SGD 1,000 thousand), and for the liabilities of Oscilloquartz SA, Saint-Blaise, Switzerland (previous year: CHF 1,000 thousand) no longer exist.

It is unlikely that the remaining guarantee will be utilized, as the subsidiary is wholly controlled by Adtran Networks SE and appropriate countermeasures will be taken at an early stage.

(24) 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 2025. In 2024, unrealized losses for these foreign currency hedges amounted to EUR 0 thousand (previous year: EUR 507 thousand which are recognized as other provision).

The forward exchange transactions that matured in the financial year resulted in a negative net result of EUR 357 thousand (previous year: negative net result EUR 864 thousand).

Declaration about fair value

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

	Fair value		Nominal value	
(in thousands of EUR)	2024	2023	2024	2023
Forward rate agreements	0	(507)	20,222	19,549

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.

(25) Corporate bodies of Adtran Networks SE

Management board

	Resident in	External mandates
Thomas R. Stanton Chief executive officer	Gurley, Alabama, USA	Chairman of the board and CEO of Adtran Holdings, Inc. Member of the board of Directors of the Economic Development Partnership of Alabama (EDPA) Member of the board of Directors of Cadence Bank
Christoph Glingener Chief technology officer	Jade, Germany	Chief technology officer of Adtran Holdings, Inc. Member of the board of trustees of Fraunhofer Heinrich-Hertz-Institute, Berlin, Germany
Ulrich Dopfer Chief financial officer	Alpharetta, Georgia, USA	Until March 9, 2025, Chief financial officer of Adtran Holdings, Inc.
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	Glonn, Germany	CEO Asmodee Holding GmbH	–

Compensation of the management board

The company's Management Board consisted of three and four members in the financial year and in 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 granted to the management board according to paragraph 285 no. 9 HGB was EUR 5,234 thousand in 2024 and EUR 9,799 thousand in 2023.

This includes share-based compensation with a fair value (market value) at the grant date in 2024 of EUR 999 thousand (previous year: EUR 1,762 thousand) for 155,323 issued RSUs (previous year: 103,703) and EUR 1,329 thousand (previous year: EUR 6,501 thousand) for 122,834 issued PSUs (previous year: 344,505 PSUs). It also includes long-term non-share-based variable compensation granted in fiscal year 2023 in the amount of EUR 898 thousand.

Total remuneration to former members of the management board according to paragraph 285 no. 9 HGB was in 2024 and 2023 EUR 0 and EUR 447 thousand.

In 2024 and 2023, no loans were granted to current members of the management board. As of December 31, 2024 and 2023, there were no receivables from members of the management board.

On December 31, the current members of the management board held the following stock options and other share-based remuneration instruments of Adtran Holdings, Inc.:

Options *		RSUs		Annual PSUs		3-year plan PSUs		Integration bonus PSUs	
2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
514,453	772,094	278,969	365,936	204,750	179,907	264,902	192,656	—	69,933

* The number of outstanding options stated in the 2023 Annual Report as of December 31, 2023, also included options held by a former member of the management board. This number has been corrected in Annual Report 2024.

The former members of the management board received cash inflows of EUR 31 thousand from the exercise of stock options in 2024 (2023: EUR 96 thousand). Further details on the stock option programs can be found in note (40).

As of December 31, 2024 and 2023, the active and former members of the management board did not hold any shares in Adtran Networks SE.

Compensation of the supervisory board

The fixed remuneration to be paid to the supervisory board for 2024 and 2023 totaled EUR 265 thousand and EUR 234 thousand, respectively.

The fixed compensation for the supervisory board of Adtran Networks SE is paid out in quarterly installments. The fixed compensation for Q4 2024 amounting to EUR 66 thousand was paid out in January 2025 and is included in other liabilities in the annual financial statements.

On December 31, 2024, no shares or stock options were held by members of the supervisory board (December 31, 2023: none).

(26) Employees

The company employed an average of 551 employees and 41 apprentices (prior year: 560 employees and 38 apprentices), divided into the following functional areas:

Employees per functional area	2024	2023
Purchasing and production	155	154
Sales, marketing and service	102	113
Management and administration	94	95
Research and development	200	198
Apprentices	41	38
Total	**592**	**598**

(27) Auditor's fees

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

(28) 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.

(29) 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, 2024 for fiscal year 2024 in the amount of EUR 177,438,127.08 in full into a new account.

(30) Events after the balance sheet date

Recently, the global economy has had to contend with several announcements of tariffs in the USA. The volatility of these tariff announcements is creating significant uncertainty for global trade. Adtran is closely monitoring the situation while actively seeking solutions. We have established a communication channel with our suppliers and customers that will remain open and active as we work to keep all stakeholders informed on how recent tariff actions may affect Adtran products used in building and expanding your networks.

Adtran Networks operates a production facility at the headquarters of its parent company in Huntsville, Alabama, and collaborates with manufacturers outside the USA. This approach ensures an efficient, flexible, and cost-effective supply chain. Adtran Networks will continue to monitor and adjust global production processes as needed to minimize potential tariff impacts. To avoid additional tariffs, the relocation of inventory is being considered to continue meeting customers' short-term needs. Furthermore, Adtran Networks works closely with all suppliers to adapt business models and thereby reduce potential tariff burdens.

The financial impact of the customs announcements and the resulting uncertainties in global trade on the net assets, financial position and results of operations of Adtran Networks SE cannot be estimated at this time.

There were no further events after the balance sheet date that might 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 28, 2025

Thomas R. Stanton

Christoph Glingener Ulrich Dopfer

Affirmative declaration of the legal representatives

We, the members of the Management Board of Adtran Networks SE, declare that, to the best of our knowledge and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the combined management report includes a fair review of the development and performance of the business and the position of Adtran Networks SE, together with a description of the principal opportunities and risks associated with the expected development of the company.

Meiningen, April 28, 2025

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 Combined management report

Opinions

We have audited the annual financial statements of Adtran Networks SE, Meiningen, which comprise the balance sheet as at December 31, 2024, and the statement of profit and loss for the financial year from January 1 to December 31, 2024, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the combined management report of Adtran Networks SE for the financial year from January 1 to December 31, 2024.

In accordance with German legal requirements, we have not audited the content of those components of the combined management report specified in the “Other Information” section of our auditor’s report.

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 applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2024 and of its financial performance for the financial year from January 1 to December 31, 2024 in compliance with German Legally Required Accounting Principles, and
- the accompanying combined management report as a whole provides an appropriate view of the Company’s position. In all material respects, this combined 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 opinion on the combined management report does not cover the content of those components of the combined management report specified in the “Other Information” section of the auditor’s report.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as “EU Audit Regulation”) and 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 Combined 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)(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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the combined management report.

Material uncertainty about the Company's ability to continue as a going concern

Please refer to the notes to the financial statements and to the information in the "Risks and opportunities" section of the combined management report, in which the management of Adtran Networks SE describes that the financing of the Company is closely linked to that of the parent company Adtran Holdings, Inc. In addition to the existing domination and profit and loss transfer agreement, a Senior Secured Credit Facility with a banking consortium was concluded in 2024; this entails a dependence on the performance of the parent company.

Under this agreement, financial covenants that refer to key financial figures from the consolidated financial statements of the parent company (Adtran Holdings, Inc.) were specified. In the event of the financial covenants being breached, there is a risk that the credit facility of Adtran Networks SE, which was drawn down in the amount of EUR 46.9 million as at 31 December 2024, will be called in.

Management describes in the risk report under "Going concern risk due to financial interdependencies and DPLTA obligations" that the annual financial report of the parent company Adtran Holdings, Inc. as at 31 December 2024, published on 4 March 2025, refers to the option of the minority shareholders of Adtran Networks SE to transfer shares to the parent company in return for cash settlement in the amount of EUR 17.21 per share under the control and profit and loss transfer agreement pursuant to Section 305 AktG [Aktiengesetz: German Stock Corporation Act]. With regard to the cash settlement, several minority shareholders applied for a review of the amount offered as part of appraisal proceedings. From management's standpoint, the appraisal proceedings are not expected to be concluded within the forecast period of 12 months. Management also describes that the market price of the Adtran Networks SE share is currently significantly higher than the cash settlement amount offered, which makes a cash settlement appear unprofitable for investors at present.

They also describe that the published annual financial report of Adtran Holdings, Inc. as at 31 December 2024 indicates that if all minority shareholders were to redeem their right to cash settlement at the same time, a payment obligation of approximately EUR 333.2 million including interest would arise. Further, management stated there is insufficient liquidity at the level of the parent company to service all cash settlements as at the publication date of the annual financial report.

As at 31 December 2024, Adtran Networks SE reported loans to Adtran Inc., a subsidiary of Adtran Holdings, Inc., amounting to EUR 16.4 million and receivables from the 2024 profit and loss transfer amounting to EUR 47.1 million from Adtran Holdings, Inc. The liability from the Senior Secured Credit Facility at Adtran Networks SE amounted to EUR 46.9 million as at 31 December 2024. The cash and cash equivalents of the Adtran Networks SE Group amounted to EUR 27.0 million as at 31 December 2024.

As described in the risks and opportunities section of the combined management report, management has prepared scenarios that model the various possibilities for the financial and economic development of the Adtran Holdings, Inc. Group and various probabilities relating to the right to cash settlement by the minority shareholders being triggered. In this regard, strategic measures to increase profitability and measures to increase liquidity through financing and capital release measures are taken into account. A higher than expected redemption of the cash settlement claim could result in risks for Adtran Networks SE, as there could be a breach of the financial covenants at the level of Adtran Holdings, Inc, with the consequence that the credit facility granted to Adtran Networks SE could become payable. According to current liquidity planning, a breach of the financial covenants at the level of Adtran Holdings, Inc., resulting in the credit facility of Adtran Networks SE becoming payable, would also result in a liquidity gap on the part of Adtran Networks SE in the first half of 2025. If it is not possible in this situation to agree a waiver with the banking consortium or to obtain financing from third parties or liquidity through own capital release measures, this could lead to a default.

As described in the notes to the consolidated financial statements and in the "Risks and opportunities" section of the combined management report, these events and conditions indicate considerable uncertainty that may cast significant doubt on the Company's ability to continue its business activities and which represents a risk that could affect the Company's ability to continue as a going concern within the meaning of Section 322 (2) sentence 3 HGB.

In accordance with Article°10 (2) c) ii) of the EU Audit Regulation, we summarise our audit response with regard to this risk as follows:

In the course of our audit, we therefore identified the appropriateness of the going concern assumption as well as the appropriate presentation of the material uncertainty in connection with the ability to continue as a going concern as a material risk and conducted the following audit procedures, among others: We first analysed the current liquidity situation at the level of Adtran Networks SE. We also evaluated the annual financial report of Adtran Holdings, Inc., published on 4 March 2025, with regard to the liquidity situation presented therein and compared it with the risk analysis regarding the going concern assumption prepared for this by the management of Adtran Holdings, Inc. Based on this, we then looked at the liquidity planning of Adtran Networks SE for the forecast period. The basis for this liquidity planning is the Company's current business planning. To this end, we first gained an understanding of the planning process and discussed the key planning assumptions with those responsible for planning. Furthermore, we investigated the Company's planning accuracy by comparing budgeted figures from earlier financial years with the earnings actually realised and by analysing any deviations.

Management also submitted a written going concern forecast. Taking into account this going concern forecast and the current financial position, we obtained explanations from management regarding the liquidity increase and capital release measures assumed in the scenario analyses and compared them with appropriate audit evidence. We assessed the significant assumptions concerning viability. With regard to the risks from the claim on Adtran Holdings, Inc. in connection with settlement rights of minority shareholders, we had management explain to us the underlying assessment of the probability of claims being asserted in the next 12 months. Moreover, we requested an external confirmation from the advising lawyer regarding the appraisal proceedings and compared these findings with management's assessment.

In addition, we examined the scenario analyses with regard to the possibility of the financial covenants being breached. We also evaluated the loan agreement (Senior Secured Credit Facility) concluded with a banking consortium and discussed the findings with the management and legal department of the Company.

We do not express a separate opinion on these matters.

Our opinions on the consolidated financial statements and the combined management report have not been modified in this regard.

Our opinions on the annual financial statements and the combined management report have not been modified in this regard.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2024. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters. In addition to the matter described in the section entitled "Material Uncertainty about the Company's Ability to Continue as a Going Concern" we have identified the matters described below as key audit matters, which must be communicated in our independent auditor's report.

Recognition of internally generated intangible assets

Please refer to note "Accounting and valuation" section in the notes for information on the accounting and valuation principles applied and the assumptions used. Information on the amount of internally generated intangible assets can be found in Note 2.

THE FINANCIAL STATEMENT RISK

The capitalized developments projects reported under "Self-produced industrial property rights and assets, and licenses in such rights and assets" in the financial statements amounted to EUR 122.3 million as at 31 December 2024 and, at 25.6% of total assets, are of considerable significance for the financial position.

In the case of capitalisation of expenses in connection with development projects for new products, this relates to a capitalisation option according to Section 248 (2) sentence 1 HGB. The criteria for capitalisation are explained in GAS 24 item 45 [German Accounting Standards], which is also recommended for use in the annual financial statements. Recognition as an asset is essentially based on management's assessment that technical feasibility has been demonstrated and the development project will generate an inflow of economic benefits.

Capitalized development costs are amortized on a straight-line basis from the start of capitalization over the normal useful life, which is based on the estimated sales periods for the developed products and generally amounts to three to five years. If there are indications of an impairment of capitalized development costs, the company determines the fair value as at the reporting date and compares this with the respective carrying amount. The recoverable amount is determined on the basis of an income approach taking into account the expected future cash flows of the development project and the product resulting therefrom. Determination is complex and based on a range of assumptions that require judgement. These also include the expected revenue and earnings contributions of the development project and the discount rate used.

There is the risk for the financial statements that the recognition criteria for developments projects are not in place as at the reporting date. In addition, there is a risk for the annual financial statements that the capitalized development expenses are not recoverable.

OUR AUDIT APPROACH

We initially obtained an understanding of the product development process and the Company's process for capitalising development costs and for assessing their recoverability, and evaluated whether the accounting-related manual and IT-based internal controls contained therein were appropriately designed and implemented. Based on the results, we tested the operating effectiveness of selected controls.

With regard to the development costs capitalized for the first time in the 2024 financial year, we used a deliberate selection process to check whether the criteria for capitalization were met. In addition, we used a statistical sampling to check whether the project-specific development hours and other expenses were allocated to the development projects in accordance with the causation principle. In addition, we verified and assessed the determination of the hourly rates used to measure the development hours for the same sample.

With regard to impairment testing, we analysed whether income approach used is in accordance with German Accounting Standards and whether the assumptions are plausible, taking into account the current financial development of the Group and the approved planning for subsequent years.

OUR OBSERVATIONS

The recognition criteria are in place.

The underlying approach for the impairment test is appropriate and in line with the accounting policies to be applied. The Company’s assumptions and data are appropriate.

Valuation of shares in affiliated companies

Please refer to Note “Accounting and valuation” in the notes for further information on the accounting policies applied.

THE FINANCIAL STATEMENT RISK

In the annual financial statements of Adtran Networks SE as at 31 December 2024, shares in affiliated companies totaling EUR 68.8 million are recognised under financial assets. Financial assets account for 14.4% of total assets and thus have a material effect on the Company's financial position.

Shares in affiliated companies are recognized at the lower of cost or fair value if impairment is expected to be permanent. The cash flows for the next four years used for the discounted cash flow method are based on the approved budget, which is extrapolated using assumptions about long-term growth rates.

The impairment assessment of shares in affiliated companies is highly dependent on estimates and assessments made by the company. This applies in particular to the estimate of future cash flows used in the valuation, the long-term growth rate used and the determination of the capitalization interest rates.

Impairment losses of EUR 4.0 million (previous year: EUR 0.0 million) were reversed for four subsidiaries, as the reasons for the impairment no longer apply.

There is a risk for the annual financial statements that the write-ups are not or not fully justified or that the shares in affiliated companies are not recoverable.

OUR AUDIT APPROACH

First, we gained an understanding of the company's process for assessing the recoverability of the shares in affiliated companies by explanations from the controlling department and evaluated the documentation, in particular the planning documents and historical forecasting accuracy.

In this regard, we focused on the forecast of future revenue and earnings performance of the companies. We discussed the forecast amounts with those responsible for planning. We also reconciled this information with other internally available forecasts at the measurement date, e.g. the budget prepared by the Management Board and approved by the Supervisory Board at group level. Furthermore, we assessed the consistency of the assumptions with external market assessments. In addition, we examined the accuracy of the Company's previous forecasts by comparing the budgets and their rolling updates of previous financial years with actual earnings and by analysing deviations.

Since changes to the discount rate can affect the results of impairment testing, we, with the involvement of our valuation specialists, compared the components underlying the discount rate with our own assumptions and publicly available data. In order to take account of the forecast uncertainty, we also examined the effects of possible changes in the discount rate, the assumed business and earnings development and the long-term growth rate by calculating alternative scenarios and comparing them with the company's valuation results.

OUR OBSERVATIONS

The approach used for impairment testing of shares in affiliated companies is appropriate and in line with the accounting policies. The Company’s assumptions and data are appropriate.

Other Information

Management and/or the Supervisory Board are/is responsible for the other information. The other information comprises the following components of the combined management report, whose content was not audited:

- The combined non-financial report of the company and the group, referred to in the combined management report
- The combined corporate governance statement of the company and the group, referred to in the combined management report, and
- information extraneous to combined management reports and marked as unaudited.

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

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

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

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Combined management report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, 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, management is 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, management is 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, management is responsible for the preparation of the combined 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, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined 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 combined 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 combined management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined 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 combined 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 opinions on the annual financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 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 combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the combined 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 opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement 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 relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control or of these arrangements and measures.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective 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 combined 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 management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management 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 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, the actions taken or safeguards applied to eliminate independence threats.

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 Combined management report Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the annual financial statements and the combined management report (hereinafter the "ESEF documents") contained in the electronic file Adtran_SE_JA+LB_ESEF-2025-04-28.zip (SHA256-Hashwert: 84f2bd52277b2df8a2921ab3ad87148766941c07d06fcb775da99ce7ff057944) made available and prepared for publication purposes complies in all material respects with the requirements of Section 328 (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 combined 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 file identified above.

In our opinion, the rendering of the annual financial statements and the combined management report contained in the electronic file made available identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying combined management report for the financial year from 1 January to 31 December 2024 contained in the "Report on the Audit of the Annual Financial Statements and of the Combined 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 file identified above.

We conducted our assurance work on the rendering of the annual financial statements and the combined management report, contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering of Financial Statements and Combined management reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410 (06.2022)). Our responsibility in accordance therewith is further described below. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QMS 1 (09.2022)).

The Company's management is responsible for the preparation of the ESEF documents including the electronic renderings of the annual financial statements and the combined management report in accordance with Section 328 (1) sentence 4 item 1 HGB.

In addition, the Company's management is responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

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

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, 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 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 file made available, containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, as amended as at the reporting date, 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 the audited combined management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor at the annual general meeting on 28 June 2024. We were engaged by the audit committee on 2 December 2024. We have been the auditor of Adtran Networks SE without interruption since financial year 2024.

We declare that the 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).

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 combined management report as well as the examined ESEF documents. The annual financial statements and the combined management report converted into ESEF format – including the versions to be entered in the German Company Register [Unternehmensregister]– are merely electronic renderings of the audited annual financial statements and the audited combined management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the examined ESEF documents provided in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Burkhard Lauer.

Leipzig, 28 April 2025

KPMG AG
Wirtschaftsprüfungsgesellschaft

[signature] Lauer Wirtschaftsprüfer [German Public Auditor]	*[signature]* Marschner Wirtschaftsprüferin [German Public Auditor]