Registered number: 03593238

ADVA Optical Networking Limited

Annual Report and Financial Statements

For the Year Ended 31 December 2021

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ADVA Optical Networking Limited

Company Information

Directors	Ulrich Maximilian Dopfer Maurice Baarslag Kristen Louise Clovis
Company secretary	Ian Blackburn
Registered number	03593238
Registered office	Advantage House Tribune Way Clifton Moor York North Yorkshire YO30 4RY
Independent auditors	Dains Audit Limited 15 Colmore Row Birmingham B3 2BH
Bankers	Deutsche Bank AG 99 Bishopsgate London EC2M 3XD

ADVA Optical Networking Limited

Contents

Introduction

The directors present their Strategic report of the Company for the year ended 31 December 2021.

Results and dividends

ADVA Optical Networking Limited ("the Company") achieved a profit before taxation of £2.4 million in 2021 (2020: £2.1 million). During the year £nil dividends were paid (2020: £4 million paid). No final dividend is recommended by the Board.

Principal activities and review of the business

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

KPIs

	2021 £m	2020 £m	Change %
Revenue	**84.3**	79.3	6.3
Gross profit	**9.8**	9.1	7.7
Profit for financial year	**2.0**	1.7	17.7
Net assets	**14.4**	12.4	16.3
Current assets as % of current liabilities	**169%**	178%	(9)
Average number of employees at year end	**120**	119	0.8

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

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

Business Development and operational performance
Revenues increased from £79.3 million to £84.3 million in 2021, gross profit increased to £9.8 million (11.6% of revenues) from the £9.1 million (11.5% of revenues) seen in 2020. Finally, administrative expenses increased from £7.0 million in 2020 to £7.3 million in 2021.

Employees
As at 31 December 2021, the Company had a total of 120 employees (2020: 119 employees). Personnel expenses increased from £9.3 million to £9.7 million, representing 11.5% of total revenues (2020: 11.7% of total revenues). Our employee compensation package is comprised of fixed and variable components as well as stock options providing employees the possibility to acquire shares in our parent company. Furthermore, we offer extensive training opportunities to all our employees in order to support both their personal and professional development.

Net Assets and financial position
Total net assets increased by £2 million from £12.4 million in 2020 to £14.4 million in 2021. Thereof, cash and cash equivalents increased by £10.7 million, trade and other receivables decreased by £6.9 million, inventories increased by £4.0 million, creditors increased by £5.3 million and lease obligations increased by £0.6 million.

The increase in equity of £2.0 million is solely due to the increase in positive net income of £2.0 million.

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

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

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

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

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

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

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

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

Principal risks and uncertainties

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

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

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

With the global spread of the Covid-19 pandemic, the risk of sustaining the supply chain increased. There are three scenarios that can lead into an inability to supply: the possible closure of a distribution site due to an occurring virus infection, a supply chain constraint with one or more of our contract manufacturers, or a governmental ordered lockdown within one of our more important production sites. Considering the Company is part of the global ADVA with access to several production and distribution sites and contract manufacturers the board considers that the aforementioned risks can be mitigated to the larger extent.

Competitive risks

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

Outlook

The future positive development of our Company centers primarily on our ability to innovate, on the success of new features and products in the market and on the further growth of our business. Overall, we are expecting to remain stable and to keep revenues at a similar level as in 2021. The management board of ADVA does not consider a major impact on the Company regarding Brexit.

Due to the current uncertainties about the further course of the Corona crisis and its effects on ADVA's business, it is difficult to reliably assess future impacts of the crisis. However, the financing of ADVA's business activities worldwide is very solid. Cost optimisation programs are also available to the Company to cushion server down turn scenarios. The Board sees no impact of the Corona crisis on the 2021 financial statements nor any significant impact on the current and future operations of the Company.

On 30 August 2021 ADVA Optical Networking SE, the parent company of the Company announced the entry into a business combination agreement to combine ADVA Optical Networking SE with ADTRAN Inc. in order to expand their complementary product offerings and strengthens position as a global fiber networking innovation leader with combined revenue of $1.2 billion.

This report was approved by the board on 19 August 2022 and signed on its behalf.

Kristen Louise Clovis
Director

The directors present their report and the financial statements for the year ended 31 December 2021.

Financial risk management

Credit risks

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

Currency risks

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

Results, future developments and dividends

The profit for the year, after taxation, amounted to £1,967,000 (2020 - £1,675,000).

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

Directors

The directors who served during the year were:

Ulrich Maximilian Dopfer
Maurice Baarslag
Kristen Louise Clovis

Directors' qualifying third party indemnity provisions

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

Directors' responsibilities statement

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

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

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

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

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

Disclosure of information to auditors

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

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

Engagement with suppliers, customers and others

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

Statement of corporate governance arrangements

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

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

Post balance sheet events

On August 30, 2021, ADVA and ADTRAN Inc., Huntsville, Alabama, United States announced the entry into a business combination agreement to combine the two companies and create a leading global, scaled provider of end-to-end fiber networking solutions for communications service provider, enterprise, and government customers. On January 28, 2022, ADTRAN and ADVA announced that the minimum acceptance threshold for the proposed merger with ADTRAN had been reached. Following regulatory approval by the foreign trade authorities, the merger took place. On July 15, 2022, 8 business days after regulatory approval ADTRAN became the biggest shareholder of ADVA Group with 66% of shares. This corporate transaction has effects on the financial statements of ADVA SE, which is the owner of 100% shares of ADVA Optical Networking Ltd. Thus, ADVA Optical Networking Ltd becomes part of the combined company initially called Acorn HoldCo, Inc.

On February 24th, 2022 an armed conflict broke out in connection with Russia's attack on Ukraine. This conflict has not had an impact on the Company's operations so far, but the Management Board carefully monitors the situation in order to react appropriately in every situation.

Auditors

During the year, PricewaterhouseCoopers LLP resigned as the Company's auditors. Dains Audit Limited were appointed to fill the resulting vacancy. Dains Audit Limited have expressed their willingness to continue in office as auditors and will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 19 August 2022 and signed on its behalf.

Kristen Louise Clovis
Director

Independent Auditors' Report to the Members of ADVA Optical Networking Limited

Opinion

We have audited the financial statements of ADVA Optical Networking Limited (the 'Company') for the year ended 31 December 2021, which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Other information

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

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

Other matters

The financial statements for the year ended 31 December 2020 were audited by PricewaterhouseCoopers LLP, who expressed an unmodified audit opinion on 10 September 2021.

Use of our report

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

Dains Audit Limited

Mark Hargate FCA (Senior statutory auditor)

for and on behalf of
Dains Audit Limited

Statutory Auditors
Chartered Accountants

Birmingham

19 August 2022

Statement of Comprehensive Income
For the Year Ended 31 December 2021

	Note	2021 £000	2020 £000
Revenue	4	**84,258**	79,275
Cost of sales		**(74,457)**	(70,171)
Gross profit		**9,801**	9,104
Administrative expenses		**(7,305)**	(7,017)
Other operating income	5	**12**	86
Operating profit	6	**2,508**	2,173
Finance costs	10	**(80)**	(75)
Other finance income		**17**	-
Profit before tax		**2,445**	2,098
Tax on profit	11	**(478)**	(423)
Profit for the financial year		**1,967**	1,675
Total comprehensive income for the year		**1,967**	1,675

The notes on pages 17 to 37 form part of these financial statements.

ADVA Optical Networking Limited
Registered number:03593238

Statement of Financial Position
As at 31 December 2021

	Note		2021 £000		2020 £000
Fixed assets					
Intangible assets	13		**446**		456
Property, plant and equipment	14		**2,531**		2,096
Investments	15		**-**		-
			2,977		2,552
Current assets					
Inventories	16	**13,029**		8,997	
Trade and other receivables	17	**5,101**		12,014	
Cash at bank and in hand	18	**17,256**		6,595	
		35,386		27,606	
Creditors: amounts falling due within one year	19	**(20,932)**		(15,483)	
Net current assets			**14,454**		12,123
Total assets less current liabilities			**17,431**		14,675
Creditors: amounts falling due after more than one year	20		**(2,957)**		(2,081)
			14,474		12,594
Provisions for liabilities					
Other provisions	23		**(60)**		(207)
Net assets			**14,414**		12,387
Capital and reserves					
Called up share capital	24		**137**		137
Share premium account	25		**4,634**		4,634
Capital redemption reserve	25		**1,724**		1,724
Share option reserve	25		**1,147**		1,087
Profit and loss account	25		**6,772**		4,805
Total shareholders' funds			**14,414**		12,387

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 19 August 2022.

Kristen Louise Clovis
Director

The notes on pages 17 to 37 form part of these financial statements.

ADVA Optical Networking Limited

Statement of Changes in Equity
For the Year Ended 31 December 2021

	Called up share capital	Share premium account	Capital redemption reserve	Share option reserve	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000	£000
At 1 January 2021	137	4,634	1,724	1,087	4,805	12,387
Comprehensive income for the year						
Profit for the year	-	-	-	-	1,967	1,967
Total comprehensive income for the year	-	-	-	-	1,967	1,967
Share-based payment	-	-	-	60	-	60
At 31 December 2021	137	4,634	1,724	1,147	6,772	14,414

The notes on pages 17 to 37 form part of these financial statements.

ADVA Optical Networking Limited

Statement of Changes in Equity
For the Year Ended 31 December 2020

	Called up share capital	Share premium account	Capital redemption reserve	Share option reserve	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000	£000
At 1 January 2020	137	4,634	1,724	1,040	7,130	14,665
Comprehensive income for the year						
Profit for the year	-	-	-	-	1,675	1,675
Total comprehensive income for the year	-	-	-	-	1,675	1,675
Share-based payment	-	-	-	47	-	47
Dividend distribution	-	-	-	-	(4,000)	(4,000)
At 31 December 2020	137	4,634	1,724	1,087	4,805	12,387

The notes on pages 17 to 37 form part of these financial statements.

1. General information

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

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

2. Accounting policies

2.1 Basis of preparation of financial statements

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

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

The following principal accounting policies have been applied:

2.2 Financial Reporting Standard 101 - reduced disclosure exemptions

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

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

This information is included in the consolidated financial statements of ADVA Optical Networking SE as at 31 December 2021 and these financial statements may be obtained from Fraunhoferstraße 9a, Martinsried/Munich, D-82152, Germany.

2. Accounting policies (continued)

2.3 Going concern

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

2.4 Impact of new international reporting standards, amendments and interpretations

There are no new amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2021 that have had a material impact on the company's financial statements.

2.5 Revenue

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

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

Sale of goods

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

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

Rendering of services

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

2.6 Lease accounting IFRS 16

The Company as a lessee

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the

2. Accounting policies (continued)

2.6 Lease accounting IFRS 16 (continued)

lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

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

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

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

The lease liability is included in 'Creditors' on the Statement of financial position.

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

The right-of-use assets are included in the 'Intangible assets' and 'Property, plant and equipment' lines, as applicable, in the Statement of financial position.

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

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

2. Accounting policies (continued)

2.7 Research and development

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

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

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

2.8 Pensions

Defined contribution pension plan

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

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

2.9 Share based payments

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

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

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

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

2. Accounting policies (continued)

2.10 Current and deferred taxation

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

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

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

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

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

2.11 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

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

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

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

2. Accounting policies (continued)

2.12 Intangible assets

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

The estimated useful lives range as follows:

Patents/Licenses	-	2 - 5 years

Amortisation is included within administrative expenses.

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

2.13 Property, plant and equipment

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

Depreciation is provided on the following basis:

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

2.14 Valuation of investments

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

2.15 Inventories

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

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

2.16 Debtors

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

2. Accounting policies (continued)

2.17 Cash and cash equivalents

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

2.18 Creditors

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

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

2.19 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the reporting date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of financial position.

2.20 Financial instruments

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

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

Financial assets

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

Fair value through profit or loss

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

Financial liabilities

Fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss, when the financial liability is held for trading, or is designated as at fair value through profit or loss. This designation may be made

2. Accounting policies (continued)

2.20 Financial instruments (continued)

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

2.21 Dividends

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

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

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

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

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

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

(c) Impairment of trade receivables
The new impairment model changes the calculation of impairment from an incurred loss model to an expected credit loss model. ADVA Optical Networking Limited calculates the impairment on trade receivables that are accounted for at amortised cost according to IFRS 9 based on the simplied approach on the basis of a provision matrix.

4. Revenue

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

	2021 £000	2020 £000
Sale of goods	**74,036**	67,673
Rendering of services	**10,222**	11,602
	84,258	79,275

Analysis of turnover by country of destination:

	2021 £000	2020 £000
United Kingdom	**83,644**	71,555
Rest of Europe	**614**	7,327
Rest of the world	**-**	393
	84,258	79,275

Liabilities related to contracts with customers:

The company has recognised the following assets and liabilities related to contracts with customers.

	2021 £000	2020 £000
Current Contract Liabilities	**879**	907
Non-Current Contract Liabilities	**1,663**	1,450
Total Contract Liabilities	**2,542**	2,357

Contract liabilities for expected service contracts have increased by £185,000 (2020: £274,000). The increase is due to an increase in overall contract activity.

Revenue recognised in the current reporting period which relates to carried-forward contract liabilities amounts to £2,258,000 (2020: £2,033,000).

5. Other operating income

	2021 £000	2020 £000
Foreign currency exchange gains	**12**	86
	12	86

6. Operating profit

The operating profit is stated after charging:

	2021 £000	2020 £000
Research and development incomes	**(23)**	(27)
Depreciation of property, plant and equipment	**577**	465
Depreciation of right-of-use assets	**319**	329
Amortisation of intangible assets	**10**	73
Operating lease charges	**33**	32
Other reversals of provisions	**-**	(11)
Exchange differences	**(2)**	(95)
Defined contribution pension cost	**495**	472
Inventory costs*	**301**	391

*includes scrapping, stock taking adjustments and reserve

7. Auditors' remuneration

	2021 £000	2020 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**31**	51

8. Employees

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

	2021 £000	2020 £000
Wages and salaries	**8,117**	7,751
Social security costs	**1,027**	1,004
Cost of defined contribution scheme (note 28)	**495**	472
Share based payments (note 26)	**60**	47
	9,699	9,274

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

	2021 No.	2020 No.
Production	**22**	23
Sales and administration	**93**	91
Research and development	**5**	5
	120	119

9. Directors' remuneration

	2021 £000	2020 £000
Directors' emoluments	**11**	11
	11	11

£5.3k (2020: £5.3k) is payable by the company and £5.3k (2020: £5.3k) is payable by the ultimate controlling party ADVA Optical Networking SE, incorporated in Germany (total amount of £5.3k for different affiliate companies).

During the year retirement benefits were accruing to 1 director (2020: 1) in respect of defined contribution pension schemes.

One director of the company is paid by the company and one director is paid by the ultimate controlling party ADVA Optical Networking SE, Germany. The emoluments are not recharged to the company.

10. Finance costs

	2021 £000	2020 £000
Interest on invoice financing	**47**	30
Interest on lease liabilities	**33**	45
	80	75

11. Taxation

	2021 £000	2020 £000
Corporation tax		
Current tax on profits for the year	**478**	395
Adjustments in respect of previous periods	**-**	13
Total current tax	**478**	408
Deferred tax		
Origination and reversal of timing differences	**-**	15
Total deferred tax	**-**	15
Taxation on profit on ordinary activities	**478**	423

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2020 - higher than) the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are explained below:

	2021 £000	2020 £000
Profit on ordinary activities before tax	**2,445**	2,098
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	**465**	399
Effects of:		
Expenses not deductible for tax purposes	**13**	11
Adjustments to tax charge in respect of prior periods	**-**	13
Total tax charge for the year	**478**	423

11. Taxation (continued)

Factors that may affect future tax charges

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

Deferred tax assets
Deferred tax assets of £7,000 (2020: £7,000) have been recognised within these financial statements due to the certainty of their recoverability based on future profits in the foreseeable future.

12. Dividends

	2021 £000	2020 £000
Dividends	-	4,000

13. Intangible assets

	Patents/ Licences £000	Goodwill £000	Total £000
Cost			
At 1 January 2021	**1,383**	**437**	**1,820**
At 31 December 2021	**1,383**	**437**	**1,820**
Amortisation			
At 1 January 2021	**1,364**	**-**	**1,364**
Charge for the year on owned assets	**10**	**-**	**10**
At 31 December 2021	**1,374**	**-**	**1,374**
Net book value			
At 31 December 2021	**9**	**437**	**446**
At 31 December 2020	19	437	456

14. Tangible fixed assets

	Leasehold improve-ments £000	Leasehold property (right-of-use asset) £000	Motor vehicles (right-of-use asset) £000	Factory and office equipment £000	Technical equipment and machinery £000	AUC £000	Total £000
Cost or valuation							
At 1 January 2021	**438**	**1,358**	**174**	**2,043**	**5,145**	**-**	**9,158**
Additions	**-**	**1,430**	**-**	**50**	**252**	**1**	**1,733**
Disposals	**-**	**(1,001)**	**-**	**(18)**	**(55)**	**-**	**(1,074)**
At 31 December 2021	**438**	**1,787**	**174**	**2,075**	**5,342**	**1**	**9,817**
Depreciation							
At 1 January 2021	**372**	**543**	**95**	**1,928**	**4,125**	**-**	**7,063**
Charge for the year on owned assets	**29**	**-**	**-**	**65**	**483**	**-**	**577**
Charge for the year on right-of-use assets	**-**	**272**	**47**	**-**	**-**	**-**	**319**
Disposals	**-**	**(601)**	**-**	**(18)**	**(54)**	**-**	**(673)**
At 31 December 2021	**401**	**214**	**142**	**1,975**	**4,554**	**-**	**7,286**
Net book value							
At 31 December 2021	**37**	**1,573**	**32**	**100**	**788**	**1**	**2,531**
At 31 December 2020	66	815	80	115	1,020	-	2,096

15. Fixed asset investments

In 2021 and 2020 ADVA Optical Networking Limited holds a 1% share of the investment in group company ADVA Optical Networking Serviços Ltda., Sao Paulo, Brasil, representing USD 250 (£167).

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

16. Inventories

	2021 £000	2020 £000
Work in progress	**26**	61
Finished goods and goods for resale	**13,003**	8,936
	13,029	8,997

The difference between purchase price or production cost of stocks and their replacement cost is not material. The inventory reserve at the year end totalled £1,393,000 (2020: £1,223,000).

17. Trade and other receivables

	2021 £000	2020 £000
Trade debtors	**4,397**	10,723
Amounts owed by group undertakings	**314**	855
Other debtors	**86**	-
Prepayments and accrued income	**263**	395
Tax recoverable	**34**	34
Deferred taxation	**7**	7
	5,101	12,014

The Company entered into an agreement to sell debts to Lloyds TSB Commercial Finance Limited on a non-recourse basis. Credit risks and settlement risks are transferred to the purchaser. At 31 December 2021 and 31 December 2020 the Company sold those trade debtors, where substantially all of the risk has been passed to the purchaser and cash has been transferred to the Company. At 31 December 2021, these transactions amounted to £28,690,000 (2020: £16,297,000).

Amounts due by group undertakings are undertakings are unsecured, interest free, have a fixed date of repayment and are repayable on demand.

18. Cash and cash equivalents

	2021 £000	2020 £000
Cash at bank and in hand	**17,256**	6,595
	17,256	6,595

19. Creditors: Amounts falling due within one year

	2021 £000	2020 £000
Trade creditors	**1,143**	1,374
Amounts owed to group undertakings	**14,932**	9,226
Corporation tax	**25**	-
Other taxation and social security	**2,063**	2,170
Lease liabilities	**352**	327
Other creditors	**156**	31
Accruals and deferred income	**1,382**	1,448
Contract liabilities	**879**	907
	20,932	15,483

Amounts due to group undertakings are unsecured, interest free, have a fixed date of repayment and are repayable on demand.

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

	2021 £000	2020 £000
Lease liabilities	**1,294**	631
Contract liabilities	**1,663**	1,450
	2,957	2,081

21. Leases

Company as a lessee

Future minimum lease payments are due as follows:

	2021 £000	2020 £000
Not later than one year	**331**	364
Between one year and five years	**832**	693
	1,163	1,057

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

	2021 £000	2020 £000
Interest expense on lease liabilities	**33**	45
Expenses relating to short-term leases	**-**	4

22. Deferred taxation

	2021 £000	2020 £000
At beginning of year	**7**	22
At end of year	**7**	22

The deferred tax asset is made up as follows:

	2021 £000	2020 £000
Short term timing differences	**7**	7
	7	7

23. Provisions

	Warranty provision £000
At 1 January 2021	207
Charged to profit or loss	(147)
At 31 December 2021	**60**

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

24. Share capital

	2021 £000	2020 £000
Allotted, called up and fully paid		
1,368,054 (2020 - 1,368,054) ordinary shares of £0.10 each	**137**	137

25. Reserves

Share premium account

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

Capital redemption reserve

The capital redemption reserve represents equity redeemed by the company.

Share option reserve

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

Profit and loss account

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

26. Share based payments

To date, ADVA Optical Networking SE (the parent company) has issued stock options (Plan XIV) for employees of ADVA Optical Networking Limited. On 31 December 2021, one stock-based compensation program for employees was still in existence.

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

In 2021, 29,500 new options for employees of ADVA Optical Networking Limited were issued from Plan XIV.

All option rights are non-transferable. They may only be exercised as long as the entitled person is employed on a permanent contract by the parent company or by a company in which ADVA Optical Networking SE has direct or indirect interest (affiliated company). Option rights issued to apprentices may only be exercised if the apprentices are hired by the holding company or an affiliated company on a permanent contract. All option rights expire upon termination of the employment contract. In the event that the person entitled dies, becomes unable to work or retires, special provisions come into force.

The group of people to whom option rights can be issued is defined separately for each stock option program. According to the resolution on 13 May 2020, 35.0% of option rights - in total 1,756,369 options rights - authorised pursuant to Plan XIV and Plan XIVa could be issued to member of the management board, 5.0% - in total 250,910 options rights - to the management of affiliated companies, 22.5% - in total 1,129,094 options rights - to company employees and 37.5% - in total 1,881,823 option rights - to employees of affiliated companies. The management board specifies the exact group of people entitled to exercise rights and the scope of each offer. Option rights awarded to the management board are approved by supervisory board.

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

All option rights can be exercised over a total period of seven years. The option plan XIV comprises a uniform vesting period of four years for all options issued. The strike price equals the average stock price of the last ten trading days prior to the grant date. The minimum strike price is defined as the final auction price on the day when the option rights are issued. To exercise the options, certain exercise hurdles per tranche are to be considered. The exercise hurdle on Plan XIV comprises a surplus on the strike price of 20%.

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

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

29,500 options were granted in May 2021 at a fair value of €4.103. This gave an average weighted fair value for the options issued of €121,039.

26. Share based payments (continued)

	Weighted average strike price (in EUR) 2021	Number 2021	Weighted average strike price (in EUR) 2020	Number 2020
Outstanding at the beginning of the year	**7.68**	**133,500**	7.49	141,500
Granted during the year	**10**	**29,500**		-
Forfeited during the year	**13.05**	**(7,000)**	10.16	(5,000)
Transfer of employees from another ADVA entity		-	7.41	9,000
Exercised during the year	**6.34**	**(33,900)**	4.11	(12,000)
Post closing corrections	**7.87**	**(19,000)**		-
Outstanding at the end of the year	**8.15**	**103,100**	7.69	133,500

Plan XIV is equity settled.

The weighted average remaining contractal life for option rights outstanding on 31 December 2021 was 4.29 years (2020: 3.90 years). The strike price for these options is between €6.34 and €13.05 (2020: €4.98 and €10.16).

The stock options exercised had an average share price of €13.05.

Compensation expenses arising from the stock option programs were as follows:

	2021 £000	2020 £000
Options (Plan XIV)	**60**	47
	60	47

27. Capital commitments

ADVA Optical Networking SE, Germany granted an irrevocable guarantee of £1,500,000 for liabilities of ADVA Optical Networking Limited, York. In September 2018, ADVA Optical Networking Limited, York and ADVA Optical Networking North America Inc., Atlanta, USA together entered into a guarantee for ADVA Optical Networking SE, Germany for a syndicated loan agreement about €75,000,000 (£67,730,000).

28. Pension commitments

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the fund and amounted to £495,000 (2020: £472,000). Contributions amounting to £4,135 (2020: £2,674) were payable to the fund at the end of the year and are included in creditors.

29. Related party transactions

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

30. Post balance sheet events

On August 30, 2021, ADVA and ADTRAN Inc., Huntsville, Alabama, United States announced the entry into a business combination agreement to combine the two companies and create a leading global, scaled provider of end-to-end fiber networking solutions for communications service provider, enterprise, and government customers. On January 28, 2022, ADTRAN and ADVA announced that the minimum acceptance threshold for the proposed merger with ADTRAN had been reached. Following regulatory approval by the foreign trade authorities, the merger took place. On July 15, 2022, 8 business days after regulatory approval ADTRAN became the biggest shareholder of ADVA Group with 66% of shares. This corporate transaction has effects on the financial statements of ADVA SE, which is the owner of 100% shares of ADVA Optical Networking Ltd. Thus, ADVA Optical Networking Ltd becomes part of the combined company initially called Acorn HoldCo, Inc.

On February 24th, 2022 an armed conflict broke out in connection with Russia's attack on Ukraine. This conflict has not had an impact on the Company's operations so far, but the Management Board carefully monitors the situation in order to react appropriately in every situation.

31. Controlling party

The Company is a subsidiary undertaking of ADVA Optical Networking SE, incorporated in Germany.

The largest and smallest group in which results of the Company are consolidated is that headed by the ultimate controlling party ADVA Optical Networking SE, incorporated in Germany.The consolidated financial statements of this group are available to the public and may be obtained from ADVA Optical Networking SE, Fraunhoferstraße 9a, Martinsried/Munich, D-82152, Germany.

No other group financial statements include the results of this Company.