

Registered number: 05320461

ADTRAN EUROPE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

SATURDAY



ACXJPPGQ

A04

24/02/2024

#6

COMPANIES HOUSE

ADTRAN EUROPE LIMITED

COMPANY INFORMATION

Directors	R Centis (resigned 11 December 2023) M K Foliano (resigned 16 October 2023) G Wilsdorf (appointed 16 October 2023) S Broome (appointed 16 October 2023) U Dopfer (appointed 16 October 2023)
Company secretary	Blandy Services Limited
Registered number	05320461
Registered office	1st Floor Rosewood Chineham Business Park Crockford Lane Basingstoke RG24 8UT
Independent auditors	Ecovis Wingrave Yeats LLP Chartered Accountants & Statutory Auditor 3rd Floor, Waverley House 7-12 Noel Street London W17 8GQ

ADTRAN EUROPE LIMITED

CONTENTS

	Page
Strategic Report	1
Directors' Report	2 - 3
Independent Auditors' Report	4 - 7
Statement of Comprehensive Income	8
Balance Sheet	9
Statement of Changes in Equity	10
Notes to the Financial Statements	11 - 25

ADTRAN EUROPE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Introduction

The directors present their Strategic Report for the Company for the year ended 31 December 2022.

Business review

The business volume increased strongly in 2022 due to several projects that completed their test phases and started with the regular roll-out of our next-generation disaggregated fibre access platforms. This has driven turnover up. In addition, the customer base has continued to grow, as Alt Net service providers have selected Adtran platforms and accelerated their network builds.

Principal risks and uncertainties

The dominant risks are supply chain constraints limiting our ability to serve customers in a timely manner and also the related price increases for electronic components and service costs, e.g. freight that have resulted from the imbalance of demand and supply. Furthermore, a scarcity of skilled personnel might have a negative impact on the roll-out performance.

Financial key performance indicators

As a NASDAQ listed company, ADTRAN, Inc. does not publish KPIs on a country level. During quarterly calls with investors, guidance is provided for the respective upcoming quarter. See the most recent 10-K and 10-Q at investors.adtran.com.

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

The Directors, as part of the Office of the Executive Chairman ("the OEC"), in line with their duties under section 172 of the Companies Act 2006 ("s.172"), act in a way that they consider 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 a range of matters when making decisions for the long term, including the list of non exhaustive matters as set out in s.172. Factors contained within s.172 are considered when making key decisions and considering matters that are of strategic importance to the Company.

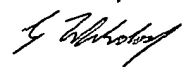
As part of the OEC's decision-making process, consideration is given to the potential impact of decisions on relevant stakeholders, which include employees, customers, suppliers and regulators, whilst also having regard to a number of broader factors, including the impact of the Company's operations on the community and environment, responsible business practices and the likely consequences of decisions in the long term.

The OEC regularly reviews the Company's principal stakeholders and how it engages with them. This is achieved including through information provided by management and also by direct engagement by all of the OEC members with stakeholders themselves.

Further information on how the Company engages with its principal stakeholders can be found in the Directors' Report.

This report was approved by the board on 23 February 2024

and signed on its behalf.



G Wilsdorf
Director

ADTRAN EUROPE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their report and the financial statements for the year ended 31 December 2022.

Principal activity

The principal activity of the Company during the year was sale of telecommunications and data networking equipment, software, and services.

Directors

The directors who served during the year were:

R Centis (resigned 11 December 2023)

M K Foliano (resigned 16 October 2023)

Results and dividends

The profit for the year, after taxation, amounted to £2,411,790 (2021 - restated profit - £994,618).

Future developments

Due to the growing customer base, the business volume will continue to increase our business in 2023. The merger with ADVA Optical Networking will add further growth potential based on our extended product portfolio.

Financial instruments

Details of financial instruments are provided in the Strategic Report on page 1.

Greenhouse gas emissions, energy consumption and energy efficiency action

During the year, the Company used 33,224 kWh (2021 - 30,097 kWh) of gas and 211,309 kWh (2021 - 159,951 kWh) of electricity.

The carbon emissions arising from the electricity and gas consumption above are 51,246 KgCO₂e (2021 - 39,780 KgCO₂e).

The Company does not use specific metrics, however, an intensity ratio could be calculated based on tonnes of CO₂e per total £m sales revenue.

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.

ADTRAN EUROPE LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

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 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 for the Company's financial statements 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.

Matters covered in the Strategic Report

Disclosures that are considered by the directors to be of strategic importance will be contained in the Strategic Report.

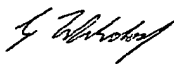
Post balance sheet events

Subsequent to the period end, there was no significant event to report.

Auditors

The auditors, Ecovis Wingrave Yeats LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 23 February 2024 and signed on its behalf.



G Wilsdorf
Director

ADTRAN EUROPE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ADTRAN EUROPE LIMITED

Opinion

We have audited the financial statements of Adtran Europe Limited (the 'Company') for the year ended 31 December 2022, which comprise the Statement of Comprehensive Income, the Balance Sheet, 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 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (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 2022 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.

ADTRAN EUROPE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ADTRAN EUROPE LIMITED (CONTINUED)

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 3, 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.

ADTRAN EUROPE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ADTRAN EUROPE LIMITED (CONTINUED)

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:

- We determined that the laws and regulations which are directly relevant to the financial statements are those that relate to the reporting framework Financial Reporting Standard 102 and the relevant tax compliance regulations in the jurisdictions in which the Company operates. We evaluated the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
- In addition, there are other significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being those laws and regulations employment law, data protection regulation, fraud, bribery and corruption. For these laws and regulations, the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through fines or litigation being imposed. As required by the auditing standards, auditing procedures in respect of non-compliance with these identified laws and regulations are limited to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by meeting with a number of individuals, including with individuals outside of the finance function, and conducted interviews to understand where they considered there was susceptibility to fraud. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to areas of estimate and judgement in the financial statements.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations and fraud risks identified in the paragraphs above. In addition to the audit procedures, we remained alert to any indications of non-compliance throughout the audit. The specific audit procedures performed included:
 - Reviewed large and unusual bank transactions;
 - Challenging assumptions and judgements made by management in its significant accounting estimates;
 - Identifying and testing journal entries.

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.

ADTRAN EUROPE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ADTRAN EUROPE LIMITED (CONTINUED)

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.

Jessica Teague

Jessica Teague (Senior Statutory Auditor)

for and on behalf of

Ecovis Wingrave Yeats LLP

Chartered Accountants & Statutory Auditor

3rd Floor, Waverley House

7-12 Noel Street

London

W17 8GQ

Date: 23 February 2024

ADTRAN EUROPE LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	2022 £	<i>Restated</i> 2021 £
Turnover	4	101,193,700	41,286,639
Cost of sales		(92,508,301)	(36,884,610)
Gross profit		8,685,399	4,402,029
Administrative expenses		(5,649,588)	(3,163,430)
Operating profit	5	3,035,811	1,238,599
Interest receivable and similar income	18	7	-
Interest payable and similar expenses	19	(23)	(40)
Profit before tax		3,035,795	1,238,559
Tax on profit	8	(624,005)	(243,941)
Profit for the financial year		2,411,790	994,618

There was no other comprehensive income for 2022 (2021: £NIL).

The notes on pages 11 to 25 form part of these financial statements.

ADTRAN EUROPE LIMITED
REGISTERED NUMBER: 05320461

BALANCE SHEET
AS AT 31 DECEMBER 2022

	Note	2022 £	Restated 2021 £
Fixed assets			
Tangible assets	9	40,370	44,069
		<u>40,370</u>	<u>44,069</u>
Current assets			
Stocks	10	4,959,684	893,733
Debtors: amounts falling due within one year	11	26,540,718	20,534,264
Cash at bank and in hand	12	7,906,428	3,355,174
		<u>39,406,830</u>	<u>24,783,171</u>
Creditors: amounts falling due within one year	13	(34,088,956)	(22,312,830)
Net current assets		<u>5,317,874</u>	<u>2,470,341</u>
Total assets less current liabilities		<u>5,358,244</u>	<u>2,514,410</u>
Net assets		<u><u>5,358,244</u></u>	<u><u>2,514,410</u></u>
Capital and reserves			
Called up share capital	15	4	4
Other reserves	16	597,159	165,115
Profit and loss account	17	4,761,081	2,349,291
		<u>5,358,244</u>	<u>2,514,410</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 23 February 2024



G Wilsdorf
Director

The notes on pages 11 to 25 form part of these financial statements.

ADTRAN EUROPE LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2021	4	95,749	1,354,673	1,450,426
Comprehensive income for the year				
Profit for the year	-	-	994,618	994,618
Share based payments	-	69,366	-	69,366
At 1 January 2022 (as previously stated)	4	165,115	2,394,631	2,559,750
Prior year adjustment	-	-	(45,340)	(45,340)
At 1 January 2022 (as restated)	4	165,115	2,349,291	2,514,410
Comprehensive income for the year				
Profit for the year	-	-	2,411,790	2,411,790
Share based payments	-	432,044	-	432,044
At 31 December 2022	4	597,159	4,761,081	5,358,244

The notes on pages 11 to 25 form part of these financial statements.

ADTRAN EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. General information

Adtran Europe Limited is a private company, limited by shares, domiciled in England & Wales, registration number 05320461. The registered office is 1st Floor Rosewood Chineham Business Park, Crockford Lane, Basingstoke, RG24 8UT.

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 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 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 102 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f) 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Adtran Inc as at 31 December 2022 and these financial statements may be obtained from 901 Explorer Boulevard, Huntsville, Alabama, 35806, USA.

2.3 Going concern

The Company has reported a profit after tax of £2,411,790 (*2021 restated profit - £994,618*) and had net assets of £5,358,244 (*2021 restated net assets - £2,514,410*) as at the balance sheet date.

The parent company has provided a letter of support confirming that they will support the Company ensuring it can meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. As a result, the directors consider it appropriate to prepare these financial statements on a going concern basis.

ADTRAN EUROPE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

2.4 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

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

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

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

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

ADTRAN EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.5 Revenue

The revenue received in respect of delivery of goods and services provided per the terms of the contract was recognised within revenue as outlined in further detail below. Any associated costs in respect of delivering these goods and services were recognised in Cost of Sales. Where the UK company has directly entered into the contract, the company is deemed to be acting as principal even if the parent has provided a written guarantee to the UK customer.

The company processes a transfer pricing adjustment which ensures that an operating profit margin of 3% is achieved by the company. In the current year, the company has raised an invoice to Adtran Inc and this is recorded within cost of sales.

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:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.6 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to profit or loss on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

ADTRAN EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.7 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 Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.8 Interest income

Interest income is recognised in profit or loss using the effective interest method.

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 balance sheet 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.

ADTRAN EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 balance sheet 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 balance sheet 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 balance sheet date.

2.11 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Depreciation is provided on the following basis:

Long-term leasehold property	- Over 5 years on a straight line basis
Plant and machinery	- Over 4 years on a straight line basis
Fixtures and fittings	- 25% reducing basis
Computer equipment	- 35% reducing basis

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

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

ADTRAN EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.12 Stocks

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 first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

The company holds stock to ensure it is able to fulfil UK orders which are supplied as per the terms of the contracts in place with UK customers. The intercompany agreement in place with the US parent company, Adtran Inc, confirms that Adtran Inc warrants that the products in stock should be of satisfactory quality and as a result there is no stock provision recognised as faulty or obsolete stock items would be returned to Adtran Inc.

2.13 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of comprehensive income.

ADTRAN EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

Agent vs Principal

Where the Company enters into contracts with UK customers and is delivering those contracts in the UK, the Company is deemed to be acting as principal. There are indicators that contradict this as there is an intercompany agreement which stipulates that the fulfilment of orders ultimately lie with Adtran Inc, the ultimate parent company, and some of the UK contracts do also refer to the Adtran Inc as a guarantor. That said, the Company enters into the contracts with the UK customers and the Company has the primary responsibility of delivering the goods and services as specified by the customer.

Furthermore, there are indicators within the intercompany agreement which suggest that the risks associated with holding stock are with the US parent company, however, given that the stock is vital to delivery of the products and services associated with the contracts in place with UK customers and given the Company is responsible for storing the stock in the UK, this stock is held on the Company's balance sheet. There is no stock provision, as stock can be returned to the US parent company, Adtran Inc, if it is faulty or obsolete. Additionally, there is no warranty provision recognised in the accounts, as Adtran Inc are liable to pay any potential warranty costs incurred.

Tangible fixed assets

Fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the assets and projected disposal values.

Maintenance revenue

The maintenance service periods range from one month to five years. Customers are typically invoiced and pay for maintenance services at the beginning of the maintenance period. Revenue for maintenance services is recognised on a straight-line basis, over the maintenance period, as customers benefit evenly throughout the contract term. As such, the Company recognises deferred revenue for the maintenance services. The total balance of deferred income as at 31 December 2022 was £6.5m (2021 restated - £1.5m).

Debtor recoverability

Management applies its judgement when estimating the recoverable value of trade debtors, intercompany debtors, and other debtors. When assessing the recoverability, management considers factors including but not limited to the aging profile of the debtors and historical experience as well as certain strategic factors.

As at the date of signing the accounts, an amount of £1.6m has not yet been recovered in respect of trade debtors outstanding as at the year end. Although the timing of the collection of the amount is uncertain, management believe this amount will be recoverable.

ADTRAN EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

4. Turnover

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

	2022 £	Restated 2021 £
Sales - Goods	91,143,586	39,472,355
Sales - Services	10,050,114	1,814,284
	<u>101,193,700</u>	<u>41,286,639</u>

Analysis of turnover by country of destination:

	2022 £	Restated 2021 £
United Kingdom	100,399,218	41,040,078
Europe	788,069	243,699
Rest of the world	6,413	2,862
	<u>101,193,700</u>	<u>41,286,639</u>

5. Operating profit

The operating profit is stated after charging:

	2022 £	2021 £
Exchange differences	11,126	11,056
Other operating lease rentals	247,845	126,835
Depreciation	16,243	17,357
Auditors' remuneration	<u>27,500</u>	<u>22,500</u>

ADTRAN EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

6. Auditors' remuneration

	2022 £	2021 £
Fees payable to the Company's auditors and their associates for the audit of the Company's financial statements	27,500	22,500
Fees payable to the Company's auditor and its associates in respect of:		
All other services	<u>27,755</u>	<u>20,610</u>

7. Employees

Staff costs were as follows:

	2022 £	2021 £
Wages and salaries	3,302,440	2,141,963
Social security costs	437,559	272,137
Cost of defined contribution scheme	217,328	71,516
	<u>3,957,327</u>	<u>2,485,616</u>

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

	2022 No.	2021 No.
Employees	<u>32</u>	<u>19</u>

The Company's directors were not remunerated by the Company in the current or prior period.

ADTRAN EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

8. Taxation

	2022 £	Restated 2021 £
Corporation tax		
Current tax on profits for the year	610,112	243,941
Adjustments in respect of previous periods	963	-
	<u>611,075</u>	<u>243,941</u>
Total current tax	<u>611,075</u>	<u>243,941</u>
Deferred tax		
Origination and reversal of timing differences	(13,033)	-
Adjustments in respect of prior periods	25,963	-
	<u>12,930</u>	<u>-</u>
Total deferred tax	<u>12,930</u>	<u>-</u>
Tax on profit	<u>624,005</u>	<u>243,941</u>

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2021 - the same as) the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are explained below:

	2022 £	Restated 2021 £
Profit on ordinary activities before tax	<u>3,035,795</u>	<u>1,238,559</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	576,801	243,941
Effects of:		
Fixed asset differences	(5,983)	-
Expenses not deductible for tax purposes	29,389	-
Adjustments to tax charge in respect of prior periods	963	-
Adjustments to tax charge in respect of prior periods - deferred tax	25,963	-
Remeasurement of deferred tax for changes in tax rates	(3,128)	-
Total tax charge for the year	<u>624,005</u>	<u>243,941</u>

ADTRAN EUROPE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

8. Taxation (continued)

Factors that may affect future tax charges

In the Finance Act 2021, enacted on 24 May 2021 the Government confirmed that the corporation tax main rate the years starting 1 April 2021 and 2022 would remain at 19% and from 1 April 2023 corporation tax will increase to 25%, but companies with profits of up to £50,000 will pay tax at 19%, and a tapered rate will apply to profits up to £250,000.

9. Tangible fixed assets

	Long-term leasehold property £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Total £
Cost or valuation					
At 1 January 2022	157,783	6,901	334,682	90,276	589,642
Additions	-	-	-	12,544	12,544
At 31 December 2022	157,783	6,901	334,682	102,820	602,186
Depreciation					
At 1 January 2022	157,783	6,094	318,470	63,226	545,573
Charge for the year on owned assets	-	807	4,902	10,534	16,243
At 31 December 2022	157,783	6,901	323,372	73,760	561,816
Net book value					
At 31 December 2022	-	-	11,310	29,060	40,370
At 31 December 2021	-	807	16,212	27,050	44,069

10. Stocks

	2022 £	2021 £
Finished goods and goods for resale	4,959,684	893,733

ADTRAN EUROPE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

11. Debtors

	2022 £	2021 £
Trade debtors	26,341,677	20,518,800
Other debtors	90,013	506
Prepayments	96,378	2,308
Deferred taxation	12,650	12,650
	<u>26,540,718</u>	<u>20,534,264</u>

12. Cash and cash equivalents

	2022 £	2021 £
Cash at bank and in hand	<u>7,906,428</u>	<u>3,355,174</u>

13. Creditors: Amounts falling due within one year

	2022 £	<i>Restated</i> 2021 £
Trade creditors	1,042,337	508,101
Amounts owed to group undertakings	22,640,932	17,296,487
Corporation tax	431,262	62,994
Other taxation and social security	3,419,764	2,898,512
Other creditors	35,230	12,929
Accruals and deferred income	6,519,431	1,533,807
	<u>34,088,956</u>	<u>22,312,830</u>

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

ADTRAN EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

14. Deferred taxation

	2022 £
At beginning of year	12,650
Charged to profit or loss	-
At end of year	12,650

The deferred tax asset is made up as follows:

	2022 £	2021 £
Decelerated capital allowances	12,650	12,650

15. Share capital

	2022 £	2021 £
Allotted, called up and fully paid		
4 (2021 - 4) Ordinary shares shares of £1.00 each	4	4

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

16. Other reserves

	2022 £	2021 £
Equity-settled schemes	597,159	165,115

All share options are granted over shares in Adtran Inc.

17. Reserves

Profit and loss account

The profit and loss account includes all current and prior periods retained profit and losses, less dividends paid.

ADTRAN EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

18. Interest receivable

	2022 £	2021 £
Bank interest receivable	7	-

19. Interest payable and similar expenses

	2022 £	2021 £
Bank interest payable	23	40

20. Prior year adjustment

Deferred income of £1,511,337 had not been recognised in the prior year financial statements. This resulted in a prior year adjustment of the comparative balances in these financial statements. Sales decreased by £1,511,337 and deferred income increased by the same amount.

The company processes a transfer pricing adjustment which ensures that an operating profit margin of 3% is achieved by the company. As a result of the above prior year adjustment, the prior year operating margin was no longer 3%. As such, an additional prior year adjustment has been posted to reduce cost of sales by £1,465,997 in order to achieve a 3% operating margin.

21. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £217,328 (2021 - £71,516). Contributions totalling £35,230 (2021 - £12,929) were payable to the fund at the balance sheet date and are included in creditors.

22. Commitments under operating leases

At 31 December 2022 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2022 £	2021 £
Not later than 1 year	305,783	85,260
Later than 1 year and not later than 5 years	1,194,712	-
	<u>1,500,495</u>	<u>85,260</u>

ADTRAN EUROPE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

23. Related party transactions

The Company has taken advantage of the exemption contained within FRS 102 from disclosing transactions with wholly owned group companies.

24. Post balance sheet events

Subsequent to the period end, there was no significant event to report.

25. Controlling party

The immediate and ultimate parent company is Adtran Inc, a company incorporated in the USA whose registered office is 901 Explorer Boulevard, Huntsville, Alabama, 35806, USA. The results of the Company are included in the consolidated financial statements of Adtran Inc.