Nine-Month Report 2017

Connecting, Extending and Assuring the Cloud

ADVA™
Optical Networking

Q3 2017 Snapshot

- Revenues of EUR 111.2 million
- IFRS pro forma operating loss[1] of EUR 0.8 million (-0.7% of revenues)
- One-time restructuring expenses of EUR 8.4 million have been recognized in Q3 2017
- IFRS operating income of EUR 11.5 million and IFRS net loss of EUR 14.0 million
- Net liquidity[2] of negative EUR 44.1 million at September 30, 2017

Profile

ADVA Optical Networking is a company founded on innovation and driven to help our customers succeed.

For over two decades, our technology has empowered networks across the globe. We are continually developing breakthrough hardware and software that leads the networking industry and creates new business opportunities.

It is these open connectivity solutions that enable our customers to deliver the cloud and mobile services that are vital to today's society and for imagining new tomorrows.

Together, we are building a truly connected and sustainable future.

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[1] Pro forma operating income/loss is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, from Q3 2017 onwards non-recurring expenses related to restructuring measures are not included.

[2] Net liquidity is calculated by subtracting current and non-current financial liabilities as well as current and non-current finance lease obligations from cash and cash equivalents.

Q3 2017 IFRS FINANCIAL HIGHLIGHTS

Quarterly Income Statement

(in thousands of EUR, except earnings per share)	Q3 2017	Q3 2016	Change	9M 2017	9M 2016	Change
Revenues	**111,173**	**159,453**	-30%	**397,233**	**438,658**	-9%
Pro forma cost of goods sold	-72,066	-116,636	38%	-265,321	-312,481	15%
Pro forma gross profit	**39,107**	**42,817**	**-9%**	**131,912**	**126,177**	**5%**
Pro forma S&M expenses	-14,348	-13,842	-4%	-44,912	-44,570	-1%
Pro forma G&A expenses	-8,230	-7,917	-4%	-25,278	-23,392	-8%
Pro forma R&D expenses	-26,751	-25,139	-6%	-81,166	-74,633	-9%
Income from capitalization of development expenses	8,566	11,635	26%	30,761	27,324	13%
Other operating income and expenses, net	850	741	15%	3,709	3,552	4%
Pro forma operating income[1]	**-806**	**8,295**	**-110%**	**15,026**	**14,458**	**4%**
Amortization of intangible assets from acquisitions	-1,389	-770	-80%	-2,947	-2,212	-33%
Stock comp. exp.	-896	-354	-153%	-1,577	-1,001	-58%
Restructuring expenses	-8,393	-	-	-8,393	-	-
Operating income	**-11,484**	**7,171**	**-260%**	**2,109**	**11,245**	**-81%**
Interest income and expenses, net	-176	-27	-552%	-450	-165	-173%
Other financial gains and losses, net	-190	-1,143	83%	-2,616	-5,177	49%
Income (loss) before tax	**-11,850**	**6,001**	**-297%**	**-957**	**5,903**	**-116%**
Income tax benefit (expense), net	-2,139	-2,740	22%	-2,323	2,001	-216%
Net income (loss)	**-13,989**	**3,261**	**-529%**	**-3,280**	**7,904**	**-141%**
Earnings per share in EUR						
basic	-0.28	0.07		-0.07	0.16	
diluted	-0.28	0.07		-0.07	0.16	

Balance Sheet

(in thousands of EUR)	Sep. 30, 2017	Dec. 31, 2016	Change
Cash and cash equivalents	57,150	84,871	-33%
Inventories	90,725	92,800	-2%
Goodwill	68,741	41,538	65%
Capitalized R&D expenses	83,807	76,263	10%
Other intangible assets	31,946	16,429	94%
Total intangible assets	184,494	134,230	37%
Other assets	161,326	155,991	3%
Total assets	493,695	467,892	6%
Stockholders' equity	228,618	238,947	-4%

Cash Flow Statement

(in thousands of EUR)	Q3 2017	Q3 2016	Change	9M 2017	9M 2016	Change
Cash flow from operating activities	-25,858	15,698	-265%	9,380	40,113	-77%
Gross capital expenditures for property, plant and equipment and other intangible assets	-3,140	-3,931	20%	-10,989	-9,992	-10%

Ratios

(in thousands of EUR)	Sep. 30, 2017	Dec. 31, 2016	Change
Net liquidity	-44,097	25,506	-273%
Working capital[3]	136,235	97,984	39%
	Q3 2017[4]	**Q3 2016[4]**	**Change**
Days sales outstanding	64	62	3%
Inventory turn-over (times/year)	4.3	5.2	-17%
Days payable outstanding	67	63	6%

Employees

	Sep. 30, 2017	Dec. 31, 2016	Change
	1,958	1,764	11%

[3] Working capital is defined as trade accounts receivable plus inventories minus trade accounts payable.

[4] Trailing twelve months.

Q3 2017 Business Highlights

Customer Achievements

July 13, 2017: ADVA Optical Networking announced that the Idaho Regional Optical Network (IRON) has deployed its 100Gbit/s core technology to respond to soaring bandwidth demand from Idaho's research and education (R&E) institutions. The upgraded backbone network delivers secure high-capacity services across the state including remote rural areas. The new solution features ADVA Optical Networking's flexible transport technology, enabling IRON to provide universities, laboratories and health care centers with 10Gbit/s services. Built on the ADVA FSP 3000, the network offers phenomenal ease of use and massive scalability, ensuring that IRON's infrastructure will satisfy the needs of the R&E community both now and in the future. IRON has also subscribed to ADVA Optical Networking's Bronze Hardware and Software Maintenance package for technical support and extended repair coverage.

September 08, 2017: ADVA Optical Networking announced that it has been selected as the technology partner of FibreCo Telecommunications, enabling the fiber network operator to roll out high-bandwidth services across South Africa. FibreCo, one of the country's leading communication service providers, will harness ADVA Optical Networking's FSP 3000 metro and long-haul technology to offer tailor-made connectivity services to its business, government and carrier customers. The initial deployment involves a 100Gbit/s ROADM network carrying data over 780km between Johannesburg and the undersea cable landing station at Mtunzini. ADVA Optical Networking's Elite partner Jasco Carrier Solutions will play a key role in the deployment and continuous support of the new network.

New Products and Solutions – Innovation

September 06, 2017: Oscilloquartz, an ADVA Optical Networking company, announced several major upgrades to its OSA 5420 Series that now make it the industry's most agile synchronization toolkit. The new features combine the delivery of synchronization over IPv6, support of ITU-T G.8275.2, expanded use of all major global navigation satellite systems (GNSS) and increased security. Collectively, these new capabilities mean that the OSA 5420 can now be used across an even wider range of industries to deliver robust, secure and packet-based IEEE 1588 PTP synchronization. As with all Oscilloquartz products, the key focus is on helping service providers to leverage their existing networks to meet increasingly advanced and progressively stringent synchronization demands in an operationally efficient and cost-effective way.

Interoperability and Alliance Partnerships

September 28, 2017: ADVA Optical Networking today announced that it has successfully completed a joint field trial of its FSP 3000 CloudConnect™ and OpenFabric™ technology in Telefónica Germany's live network. The innovative transport solution achieved disaggregated 100, 150 and 200Gbit/s connectivity over the mobile communication provider's existing 10Gbit/s line system. The high-density 1RU modular DCI technology successfully carried alien wavelengths across the national backbone infrastructure with no impact on live traffic, including error-free 200Gbit/s transmission over a 290km data path. The test demonstrated how the ADVA FSP 3000 OpenFabric™ creates an agile, flexible and highly scalable network, accelerating service availability and improving operational efficiency. It was conducted with the support of ADVA Optical Networking's Elite partner Axians.

Company Events

July 02, 2017: ADVA Optical Networking announced that it has entered into a definitive agreement to acquire MRV Communications, Inc. (NASDAQ: MRVC). Under the terms of the agreement, ADVA Optical Networking will make a tender offer of USD 10.00 per share for all the outstanding common stock of the California-based provider of innovative network solutions for data center operators, service providers and enterprises. The offer equates to an aggregate purchase price of USD 69 million and has been approved and unanimously recommended by both the board of directors of ADVA Optical Networking and the board of directors of MRV Communications, Inc.

August 14, 2017: ADVA Optical Networking announced that a majority of the shares of MRV Communications, Inc. (NASDAQ: MRVC) were validly tendered and the other conditions to the tender offer have been satisfied. American Stock Transfer & Trust Company LLC, the depositary for the tender offer, has indicated that as of midnight EDT, Friday, August 11, 2017, a total of 5,296,053 shares of MRV Communications, Inc.'s common stock, or approximately 79% of the total number of shares issued and outstanding, have been validly tendered into and not properly withdrawn from the tender offer. The depositary has indicated that no shares were tendered pursuant to the guaranteed delivery procedures set forth in the Offer to Purchase.

September 22, 2017: ADVA Optical Networking announced that its Ensemble Connector has won the 2017 Telecoms World Award for vendor innovation. Ensemble Connector, the high-performance software hosting platform for virtual network functions (VNFs), was recognized at the winners' ceremony in Dubai for its openness and simplicity. By employing the Ensemble Connector, communication service providers (CSPs) are able to avoid vendor lock-in and deploy best-in-class software for VNFs. The solution provides operational simplicity and streamlines deployment. ADVA Optical Networking's NFV technology has already been successfully deployed in a number of CSP networks, including Verizon's new universal customer premises equipment (uCPE) offering.

Nine-Month Group Management Report

The numbers discussed in this unaudited interim Group management report are based on the interim consolidated financial statements under IFRS (condensed as per IAS 34 Interim Financial Reporting).

In the following, ADVA Optical Networking SE as a company is labeled "the Company" or "ADVA Optical Networking SE". "ADVA Optical Networking" or "the Group" always refer to the ADVA Optical Networking Group.

Forward-Looking Statements

This interim Group management report of ADVA Optical Networking SE contains forward-looking statements using words such as "believes", "anticipates" and "expects" to describe expected revenues and earnings, anticipated demand for optical networking solutions, internal estimates and liquidity. These forward-looking statements are based on the beliefs of the Management Board and respective assumptions made, and involve a number of unknown risks, uncertainties and other factors, many of which are beyond ADVA Optical Networking's control. If one or more of these uncertainties or risks materializes, or if the underlying assumptions of the Management Board prove incorrect, actual results can differ materially from those described in or inferred from forward-looking statements and information. Unknown risks and uncertainties are discussed in the "risk report" section of the Group management report 2016.

Business Development and Operational Performance

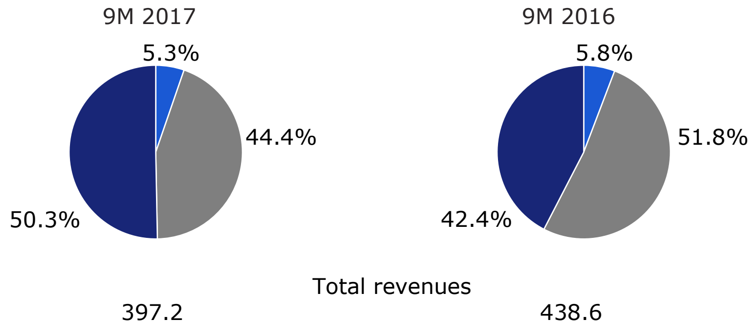
Revenues

Revenues represent one of the four key performance indicators for ADVA Optical Networking. The Group's revenues in 9M 2017 amounted to EUR 397.2 million and were EUR 41.5 million or 9.4% below revenues of EUR 438.6 million in 9M 2016. Compared to revenues of EUR 144.2 million in Q2 2017, revenues in Q3 2017 decreased to EUR 111.2 million or 30.3%.

The revenue decrease largely relates to two incidents in the Americas region: firstly, a major ICP-customer significantly decreased orders. Secondly, a large carrier infrastructure customer is in the process of a merger and ramped orders down due to the integration.

In 9M 2017, Europe, Middle East and Africa (EMEA) was reported as the most significant sales region, closely followed by the Americas. Year-on-year, EMEA revenues at EUR 199.8 million in 9M 2017 were up from EUR 185.8 million in 9M 2016 supported by a solid demand of carriers and enterprise customers. ADVA Optical Networking continues to perform well in this region despite a highly competitive market environment. In the Americas, revenues decreased significantly from EUR 227.3 million in 9M 2016 to EUR 176.5 million in 9M 2017. This decrease results from the two issues mentioned above. In the Asia-Pacific region, revenues decreased from EUR 25.5 million in 9M 2016 to EUR 20.9 million in 9M 2017 as business is still affected by temporally fluctuating project business and a comparatively small customer base.

Revenues by region
(in millions of EUR and relative to total revenues)



Since ADVA Optical Networking is only active in a single operating segment, which is the development, production and marketing of optical networking solutions, a further breakdown of revenues is not relevant.

Results of Operations

(in millions of EUR, except earnings per share)	**9M 2017**	**Portion of revenues**	**9M 2016**	**Portion of revenues**
Revenues	**397.2**	**100.0%**	**438.6**	**100.0%**
Cost of goods sold	-272.4	68.6%	-314.1	71.6%
Gross profit	**124.8**	**31.4%**	**124.5**	**28.4%**
Selling and marketing expenses	-46.6	11.7%	-45.5	10.3%
General and administrative expenses	-27.1	6.8%	-23.6	5.4%
Research and development expenses	-52.7	13.3%	-47.7	10.9%
Other operating income and expenses, net	3.7	0.9%	3.6	0.8%
Operating income	**2.1**	**0.5%**	**11.3**	**2.6%**
Interest income and expenses, net	-0.5	-0.1%	-0.2	0.1%
Other financial gains (losses), net	-2.6	-0.6%	-5.2	1.2%
Income (loss) before tax	**-1.0**	**-0.2%**	**5.9**	**1.3%**
Income tax benefit (expense), net	-2.3	-0.6%	2.0	0.5%
Net income (loss)	**-3.3**	**-0.8%**	**7.9**	**1.8%**
Earnings per share in EUR				
Basic	-0.07		0.16	
Diluted	-0.07		0.16	

Cost of goods sold decreased by EUR 41.7 million to EUR 272.4 million in 9M 2017 mainly due to decreased revenues in the current period. Amortization charges for capitalized development projects increased to EUR 23.2 million in 9M 2017 after EUR 18.9 million reported in 9M 2016. In 9M 2017, the amortization charges include impairment charges of EUR 4.3 million (9M 2016: nil).

Gross profit remained stable at EUR 124.8 million in 9M 2017 after EUR 124.5 million reported in 9M 2016 to, with significantly improved gross margins at 31.4% in 9M 2017 after 28.4% in 9M 2016. The increase in gross margin in 9M 2017 is mainly driven by customer and product mix in the current period.

Selling and marketing expenses in 9M 2017 were EUR 46.6 million, above the EUR 45.5 million reported in 9M 2016, and representing 11.7% and 10.3% of revenues, respectively. ADVA Optical Networking continues to invest in post-sales customer service and intensified direct-touch activities with those key customers served via indirect distribution channels. Establishing direct contact enables the Group to work more closely with its end customers and better understand their specific requirements, which in turn helps in developing marketable products.

General and administrative expenses at EUR 27.1 million in 9M 2017 were up compared to EUR 23.6 million reported in 9M 2016, representing 6.8% and 5.4% of revenues, respectively. This increase is largely due to expenses for external services relating to the acquisition of MRV Communications Group as well as restructuring expenses.

At EUR 52.7 million in 9M 2017, R&D expenses were above the EUR 47.7 million seen in 9M 2016, comprising 13.3% and 10.9% of revenues, respectively. Gross R&D expenses increased significantly to EUR 83.5 million in 9M 2017 compared to EUR 75.0 million reported in 9M 2016. At the same time, income from capitalization of development expenses increased from EUR 27.3 million in 9M 2016 to EUR 30.8 million in 9M 2017. The capitalization rate in 9M 2017 amounted to 36.8% after 36.4% reported in 9M 2016. The increase in R&D expenses is mainly due to non-recurring expenses related to restructuring measures. The increase in capitalization of development expenses mainly relates to the development of the future product platform for innovative productivity solutions.

In 9M 2017, total operating costs of EUR 122.7 million increased from EUR 113.2 million in 9M 2016, representing 30.9% and 25.8% of revenues, respectively. In 9M 2017, operating costs include one-time restructuring expenses of EUR 3.7 million.

ADVA Optical Networking reported a decreased operating income of EUR 2.1 million in 9M 2017 after EUR 11.3 million in 9M 2016. This significant decrease is largely due to the reduction of revenues and the recognition of one-time restructuring charges. Details regarding the restructuring expenses are included in note (6).

Pro forma operating income[1] represents one of the four key performance indicators for ADVA Optical Networking. As pro forma operating income excludes non-cash charges related to stock compensation and business combinations as well as non-recurring expenses related to restructuring measures, the Management Board of ADVA Optical Networking believes that pro forma operating income is a more appropriate measure than operating income when benchmarking the Group’s operational performance against other telecommunications equipment providers. In 9M 2017, ADVA Optical Networking reported a pro forma operating income of EUR 15.1 million after EUR 14.5 million in 9M 2016, representing 3.8% and 3.3% of revenues, respectively.

Beyond the operating result, net interest expenses of EUR 0.5 million (9M 2016: EUR 0.2 million) and net other financial losses of EUR 2.6 million (9M 2016: net other financial losses of EUR 5.2 million) relating to the revaluation of foreign currency assets and liabilities and the result on hedging instruments, impacted the net income before tax in 9M 2017.

In 9M 2017, the Group reported an income tax expense of EUR 2.3 million after an income tax benefit of EUR 2.0 million in 9M 2016. In 9M 2017, the tax expense results from the application of the expected tax rate to the relevant income before tax of the respective entity of the ADVA Optical Networking Group. In 9M 2016, the tax benefit is mainly due to income from current taxes for prior periods as well as recognition of deferred tax assets on tax loss carry-forwards .

The decreased operating result in the current year, combined with the recognition of an income tax expense, resulted in ADVA Optical Networking reporting a net loss of EUR 3.3 million in 9M 2017 after a net income of EUR 7.9 million in 9M 2016.

Summary: Business Development and Operational Performance

In 9M 2017, ADVA Optical Networking reported decreased revenues compared to 9M 2016. Due to corresponding negative development of operating margins as well as the recognition of one-time restructuring expenses, ADVA Optical Networking reported a net loss in 9M 2017.

Net Assets and Financial Position

Balance Sheet Structure
ADVA Optical Networking's total assets increased by EUR 25.8 million from EUR 467.9 million at year-end 2016 to EUR 493.7 million at the end of September 2017.

(in millions of EUR)	Sep. 30, 2017	Dec. 31, 2016
Current assets	244.2	268.4
Non-current assets	249.5	199.5
Total assets	**493.7**	**467.9**
Current liabilities	178.1	141.5
Non-current liabilities	87.0	87.4
Stockholders' equity	228.6	239.0
Total equity and liabilities	**493.7**	**467.9**

Current assets at EUR 244.2 million at the end of 9M 2017 were EUR 24.2 million lower than the EUR 268.4 million reported at the end of 2016, and comprised 49.5% of the balance sheet total after 57.4% at the end of 2016. The decrease in current assets is mainly driven by the reduction of cash and cash equivalents by EUR 27.7 million to EUR 57.2 million at the end of September 2017. Moreover, inventories decreased by EUR 2.1 million to EUR 90.7 million at the end of 9M 2017, with inventory turns reduced to 4.3 times in 9M 2017 compared to 5.2 times in 12M 2016. At the same time, other current assets decreased by EUR 8.0 million to EUR 5.2 million mainly driven by lower VAT receivables. These effects were partly compensated by an increase of trade accounts receivable to EUR 84.9 million at the end of 9M 2017 after EUR 78.5 million reported on December 31, 2016. Days sales outstanding improved to 59.2 days in 9M 2017, compared to the 60.2 days reported in 12M 2016.

Non-current assets increased by EUR 50.0 million to EUR 249.5 million on September 30, 2017, after EUR 199.5 million reported at year-end 2016. Within non-current assets mainly goodwill and intangible assets from acquisitions increased by EUR 27.2 million to EUR 68.7 million and EUR 11.9 million to EUR 26.2 million, respectively due to the acquisition of the MRV Communications Group. Moreover, capitalized development projects increased by EUR 7.5 million to EUR 83.8 million at the end of 9M 2017.

Meaningful additional assets belonging to ADVA Optical Networking are the broad and global customer base of several hundred service providers and thousands of enterprises, the ADVA Optical Networking brand, the vendor and partner relationships and a highly motivated and skilled global team. These assets are not included in the balance sheet. Customer satisfaction as measured by the Net Promoter Score[5] represents one of the Group's four key performance indicators, highlighting the value of sustainable relationships with customers to ADVA Optical Networking.

On the equity and liabilities side, current liabilities increased by EUR 36.6 million from EUR 141.5 million on December 31, 2016, to EUR 178.1 million on September 30, 2017, primarily due to increased current financial liabilities. These liabilities increased by EUR 54.4 million in the reporting period mainly due to the contracting of a bridge loan for financing of the acquisition of MRV Communications Group. At the same time, current provisions increased by EUR 16.8 million as employees' variable compensation entitlement for 2017 has been included on a pro rata basis and as well as expected expenses regarding the acquisition and restructuring expenses have been accrued. Deferred revenues increased to EUR 15.3 million at the end of 9M 2017 compared to EUR 11.3 million reported at year-end 2016. These effects have been partly offset by a significant decrease in trade accounts payable to EUR 39.3 million after EUR 73.3 million reported at the end of 2016. Days payable outstanding were at 60.4 days in 9M 2017 compared to 62.1 days in 12M 2016. The decrease in trade accounts payable is mainly driven by lower revenues as well as the timing of material purchases. Other current liabilities decreased by EUR 3.0 million to EUR 20.2 million at the end of September 2017, largely driven by variable compensation for prior periods paid out in 9M 2017.

[5] The Net Promoter Score is obtained by asking customers a single question on a 0 to 10 rating scale: "How likely is it that you would recommend our company to a friend or colleague?" Based on their responses, customers are categorized into one of three groups: promoters (9-10 rating), passives (7-8 rating), and detractors (0-6 rating). The percentage of detractors is then subtracted from the percentage of promoters to obtain a Net Promoter Score.

Non-current liabilities slightly decreased from EUR 87.4 million at year-end 2016 to EUR 87.0 million at the end of September 2017 mainly due to lower non-current financial liabilities due to scheduled servicing of loans. This effect has been partly compensated by the increase of deferred tax liabilities by EUR 9.5 million mainly related to the acquisition.

Stockholders' equity decreased from EUR 239.0 million reported on December 31, 2016, to EUR 228.6 million on September 30, 2017. The equity ratio was at 46.3% on September 30, 2017, after 51.1% on December 31, 2016, while the non-current assets ratio amounted to 91.6% and 119.8%, respectively.

Balance sheet ratios (in %)		**Sep. 30, 2017**	**Dec. 31, 2016**
Equity ratio	Stockholders' equity / Total assets	46.3	51.1
Non-current asset ratio	Stockholders' equity / Non-current assets	91.6	119.8
Liability structure	Current liabilities / Total liabilities	67.2	61.8

Capital Expenditures

Capital expenditures for additions to property, plant and equipment in 9M 2017 amounted to EUR 7.3 million, below the EUR 8.4 million seen in 9M 2016.

Capital expenditures for intangible assets of EUR 34.5 million in 9M 2017 were significantly up from EUR 28.9 million in 9M 2016. This total mainly consists of capitalized development projects of EUR 30.8 million in 9M 2017 after EUR 27.3 million in 9M 2016 and capital expenditures for other intangible assets of EUR 3.7 million in 9M 2017 after EUR 1.6 million in 9M 2016.

Cash Flow

(in millions of EUR)	**9M 2017**	**Portion of cash**	**9M 2016**	**Portion of cash**
Operating cash flow	9.4	16.4%	40.1	49.4%
Investing cash flow	-78.7	137.8%	-69.8	85.9%
Financing cash flow	41.7	73.1%	17.4	21.5%
Net effect of foreign currency translation on cash and cash equivalents	-0.1	0.2%	-0.4	0.5%
Net change in cash and cash equivalents	**-27.7**	**48.5%**	**-12.7**	**15.5%**
Cash and cash equivalents at the beginning of the period	84.9	148.5%	93.9	115.5%
Cash and cash equivalents at the end of the period	**57.2**	**100.0%**	**81.2**	**100.0%**

Cash flow from operating activities was positive EUR 9.4 million in 9M 2017, after positive EUR 40.1 million in 9M 2016. The decrease mainly relates to changes in net working capital.

Cash flow from investing activities amounted to negative EUR 78.7 million in 9M 2017 after negative EUR 69.8 million in 9M 2016. The use of funds for investing activities in the reporting period as well as the respective prior year period was largely due to cash outflows in the acquisition of MRV Communications Group in 2017 and Overture reported in 2016.

Finally, net cash inflows of EUR 41.7 million were reported for financing activities in 9M 2017, after cash inflows for financing activities EUR 17.4 million reported in 9M 2016. The cash inflows in both periods is mainly due to taking up new debt.

Overall, including the net effect of foreign currency translation of negative EUR 0.1 million in 9M 2017, cash and cash equivalents decreased by EUR 27.7 million, from EUR 84.9 million at the end of December 2016 to EUR 57.2 million on September 30, 2017.

Financing and Liquidity

ADVA Optical Networking's financial management objective is to provide sufficient funds to ensure ongoing operations and to support the Group's future growth. Beyond the strong equity base appropriate for the growing business, ADVA Optical Networking finances its business by means of liabilities with maturities typically exceeding the life of the assets being financed. For any liability taken, ADVA Optical Networking is focused on minimizing related interest cost, as long as access to funds is not at risk. Excess funds are generally used to redeem.

Financial liabilities (in millions of EUR)	**Sep. 30, 2017**	**Dec. 31, 2016**
Current financial liabilities	73.1	18.7
Non-current financial liabilities	28.2	40.7
Total financial liabilities	**101.3**	**59.4**

Total financial liabilities decreased by EUR 41.9 million. The current portion increased by EUR 54.4 million to EUR 73.1 million due to the contracting of a new bridge loan for financing of the acquisition of MRV Communications Group. At the same time, the non-current portion decreased to EUR 28.2 million at the end of September 2017, due to scheduled servicing of existing debts.

On September 30, 2017, the Group had available EUR 8 million of undrawn committed borrowing facilities (December 31, 2016: EUR 8 million).

Net liquidity[2] represents one of the four key performance indicators for ADVA Optical Networking. Due to increase in financial liabilities in 9M 2017, and the decrease in cash and cash equivalents ADVA Optical Networking's net liquidity significantly decreased from EUR 25.5 million at year-end 2016 to negative EUR 44.1 million at the end of September 2017. Cash and cash equivalents on September 30, 2017, and on December 31, 2016, were invested mainly in EUR, USD and GBP. At the end of September 2017 and at the end of December 2016, EUR 0.2 million and EUR 0.1 million of cash and cash equivalents was restricted, respectively.

Net liquidity (in millions of EUR)	**Sep. 30, 2017**	**Dec. 31, 2016**
Cash and cash equivalents	57.2	84.9
- financial liabilities		
current	73.1	18.7
non-current	28.2	40.7
Net liquidity	**-44.1**	**25.5**

ADVA Optical Networking's liquidity ratios are as follows:

Financing ratios		Sep. 30, 2017	Dec. 31, 2016
Cash ratio	Cash and cash equivalents / Current liabilities	0.32	0.60
Quick ratio	Monetary current assets* / Current liabilities	0.80	1.15
Current ratio	Current assets / Current liabilities	1.37	1.90

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

Return on capital employed in 9M 2017 was at positive 0.9%, down from positive 4.9% reported in 9M 2016. This development is mainly due to the decline of operating result in 9M 2017.

Return on capital employed (ROCE) (base data in millions of EUR)		**9M 2017**	**9M 2016**
Operating income		2.1	11.3
Average total assets*		472.1	434.6
Average current liabilities*		146.3	131.6
ROCE	Operating income / Ø total assets - Ø current liabilities	**0.9%**	**4.9%**

* Arithmetic average of the quarterly balance sheet values (Dec. 31 of the previous year, Mar. 31, Jun. 30 and Sep. 30 of the year).

Transactions with Related Parties
Transactions with related individuals and legal entities are discussed in note (26) to the nine-month consolidated interim financial statements.

Summary: Net Assets and Financial Position
The net assets and financial position of ADVA Optical Networking continues to be solid in 9M 2017, albeit the lower levels of cash and cash equivalents and the negative net liquidity reported. The ratios are in particular affected by the acquisition of the MRV Communications Group.

Events After the Balance Sheet Date

From October 1, 2017, Scott St. John will be member of the Management Board of ADVA Optical Networking acting as Chief Marketing & Sales Officer.

Furthermore, there were no events after the balance sheet date that affected the financial position of the Group on September 30, 2017, or its financial performance for the reporting period then ended. Similarly, there were no events considered material for disclosure.

Risk Report

ADVA Optical Networking's future development is subject to various general and Group-specific risks, which in certain cases can also endanger the Group's continued existence. Unknown risks, uncertainties and other factors are discussed in the "risk report" section of the 2016 Annual Report.

Outlook

Industry analysts forecast a compound annual growth rate of 6%[6] for ADVA Optical Networking's addressable market between the years 2016 – 2021. Internet content providers represent the customer group with the greatest growth potential due to their demand for data center interconnect solutions. Recent industry news[7], however, indicate that the price erosion for optical transmission solutions and a slowdown in the demand from the ICP community may lead to more subdued growth figures in the near future.

The global megatrends cloud and mobility still drive sustainable growth for the Group's addressable market. The market for cloud and mobile services is driving demand for more bandwidth in communication networks, and thus the demand for optical transmission technology and solutions that accelerate and improve access to the cloud. On the other hand, there is a fierce price competition that reinforces the need for further consolidation in the industry.

ADVA Optical Networking is actively driving industry consolidation and acquired MRV Communications, Inc. The acquisition expands the Company's customer base, solidifies the leadership position in the market for Ethernet access devices and strengthens the product portfolio in the area of packet optical transport solutions. In the upcoming months ADVA Optical Networking will drive a rapid integration of MRV's operation to make the acquisition highly accretive.

In addition, the Company focuses on the following long-term strategic objectives:

- Grow global revenues and profitability through extensive sales and marketing activities focusing on large customers, new customer acquisition and the service and software business.
- Expand the Group's proven innovation leadership and increase market share by meeting strategic customers' demand for innovative connectivity solutions.
- Maintain operational excellence by further focusing on industry-leading processes and best-in-class execution, which will result in product and service quality leadership, improved efficiency and increased overall customer satisfaction.
- Recruit, retain, motivate, educate and nurture the Group's employees to sustainably achieve high levels of performance, personal growth and job satisfaction, while keeping employee turnover low.

After the strong revenue growth in 2015 and 2016, the Company has seen a slowdown in demand from its largest ICP customer starting in Q2 2017 decreasing further in Q3. In addition, one of ADVA Optical Networking's most important carrier customers is in the process of a merger and ramped orders down due to integration.

For the full calendar year 2017 ADVA Optical Networking expects a decline of revenue compared to 2016, mainly caused be the two special effects mentioned in the previous paragraph. The profitability of the Group has been impacted by the significant drop in revenues and the acquisition of MRV. For the full year 2017 profitability (Proforma operating income) in percent of revenues is expected to be low single digits excluding one-off integration costs for the MRV acquisition and, considering the current restrucuturing measures, to return to mid-single digits in 2018.

Going forward, the following factors will play a decisive role:

- Internet content providers continue to build new and larger data centers that need to be connected with optical transmission technology. The FSP 3000 CloudConnect™ has been specifically designed for this target group. Market adoption of the product has been slower than anticipated and ADVA Optical Networking will take measures to further expand the application scope of the platform and win new footprint. The FSP 3000 CloudConnect has an open architecture combined with an improved cost structure.
- Large companies build geographically dispersed data protection and storage solutions, requiring optical transmission technology. The security package ConnectGuard™ and the BSI-certification in Germany bring competitive advantages and increased customer loyalty. ADVA Optical Networking expects solid growth in this application with good profitability.
- Carriers are upgrading their infrastructure to support the relentless growth in bandwidth demand. These upgrades will continue in 2018. The investment focus has shifted to metro and regional networks, where ADVA Optical Networking is particularly well positioned.
- The innovative feature set of the ADVA FSP 150 portfolio, enhanced by capabilities from the MRV acquisition and combined with an ever growing, global customer base, puts ADVA Optical Networking in a position of strength in the cloud access market. The Company expects new customer wins as well as cross-selling opportunities between traditional ADVA customers and the newly added customer base from MRV.

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[6] Industry analyst estimates for metro WDM equipment and access switching & routing relevant to ADVA Optical Networking. Sources: Ovum, Optical Networks Forecast 2016-2021 and service provider switching and routing forecast 2016-2022, published January 2017.

[7] Industry analyst update; Source: Andrew Schmitt, CignalAI, published October 12, 2107: https://cignal.ai/2017/10/cignal-ai-reports-unexpected-drop-in-cloud-and-colo-provider-spending/.

- High-precision synchronization technology continues to gain strategic importance. Specifically mobile operators, who are expanding existing LTE networks and preparing for upcoming 5G standards, are asking for network-based solutions to deliver and assure highly accurate time and frequency information. The Oscilloquartz solution portfolio is industry leading and allowed the Group to secure several relevant customer wins in 2017. The Group expects these wins to turn into solid revenue streams leading to a more significant contribution to revenue growth and margins for 2018.

ADVA Optical Networking has had a difficult Q3 2017. The quarter saw a significant reduction in order flow from the Company's biggest ICP customer. The revenue decline was further amplified by a ramp-down in orders from one of the Group's most significant carrier customers, who going through a merger. ADVA Optical Networking will rapidly adjust its operational costs to align with the lower revenue level. The acquisition of MRV Communications, Inc. adds an element of complexity, but more importantly, it expands the Group's customer base and strengthens its solution portfolio. The integration is progressing rapidly and will be highly accretive.

From an industry perspective, most markets remain highly competitive but the mega-growth drivers are fully intact: Cloud and mobility continue to drive the growth for the network equipment industry. ADVA Optical Networking's commitment to being a trusted partner for Connecting, Extending and Assuring the Cloud, is positioning the company as an attractive supplier in important growth markets. The combination of application-optimized innovation, short development and delivery times, a broad and growing customer base, and a balanced distribution model distinguish ADVA Optical Networking from comparable companies and leads to a profitable business model.

Against the backdrop of the aforementioned events and industry-trends, and taking into account planning parameters such as personnel, restructuring and currency exchange rates, the Management Board of ADVA Optical Networking expects negative revenue development on a year-on-year basis, still resulting in a three year (2015 – 2017) compound annual growth rate above the average market growth. The Management Board also expects its 2017 pro forma operating income[1] to decrease compared to the previous year. The acquisition of MRV Communications, Inc. led to one-off integration costs in Q3 2017 and impacted the Group's net liquidity[2]. The Management Board expects negative net liquidity of mid-double digit million Euro by the end of 2017. The Group will rapidly integrate MRV and streamline the combined product portfolio and very selectively invest in product development, technology and revenue-generating opportunities. In addition, the Management Board of ADVA Optical Networking expects, due to the continued focus on innovation, quality and service that customer satisfaction in 2017 will once again be at high positive levels. Actual results may differ materially from expectations if risks materialize or the underlying assumptions prove unrealistic.

Meiningen, October 24, 2017

Brian Protiva

Christoph Glingener | Ulrich Dopfer

Nine-Month IFRS Consolidated Financial Statements

Consolidated Statement of Financial Position (Unaudited)

(in thousands of EUR)	Note	Sep. 30, 2017	Dec. 31, 2016
Assets			
Current assets			
Cash and cash equivalents	(7)	57,150	84,871
Trade accounts receivable	(8)	84,858	78,474
Inventories	(9)	90,725	92,800
Tax assets		1,299	1,474
Other current assets	(10)	10,138	10,742
Total current assets		**244,170**	**268,361**
Non-current assets			
Property, plant and equipment	(11)	26,916	25,126
Goodwill		68,741	41,538
Capitalized development projects	(12)	83,807	76,263
Intangible assets acquired in business combinations	(12)	26,181	14,284
Other intangible assets	(12)	5,765	2,145
Deferred tax assets		33,858	35,999
Other non-current assets	(10)	4,257	4,176
Total non-current assets		**249,525**	**199,531**
Total assets		**493,695**	**467,892**

(in thousands of EUR)	Note	Sep. 30, 2017	Dec. 31, 2016
Equity and liabilities			
Current liabilities			
Financial liabilities	(13)	73,122	18,648
Trade accounts payable	(14)	39,348	73,290
Advance payments received		294	352
Other provisions	(15)	28,642	11,789
Tax liabilities		1,166	2,957
Deferred revenues		15,298	11,347
Other current liabilities	(14)	20,171	23,143
Total current liabilities		**178,041**	**141,526**
Non-current liabilities			
Financial liabilities	(13)	28,125	40,717
Provisions for pensions and similar employee benefits		4,942	4,705
Other provisions	(15)	1,634	1,507
Deferred tax liabilities		39,761	30,256
Deferred revenues		8,587	6,971
Other non-current liabilities	(14)	3,987	3,263
Total non-current liabilities		**87,036**	**87,419**
Total liabilities		**265,077**	**228,945**
Stockholders' equity entitled to the owners of the parent company	(16)		
Share capital		49,684	49,499
(Conditional capital EUR 4,628 thousand; prior year EUR 4,813 thousand)			
Capital reserve		314,011	312,305
Accumulated deficit		-126,970	-148,502
Net income (loss)		-3,280	21,532
Accumulated other comprehensive income (loss)		-4,827	4,113
Total stockholders' equity		**228,618**	**238,947**
Total equity and liabilities		**493,695**	**467,892**

Consolidated Income Statement (Unaudited)

(in thousands of EUR, except earnings per share and number of shares)	Note	Q3 2017	Q3 2016	9M 2017	9M 2016
Revenues	(17)	**111,173**	**159,453**	**397,233**	**438,658**
Cost of goods sold		-77,991	-117,217	-272,412	-314,162
Gross profit		**33,182**	**42,236**	**124,821**	**124,496**
Selling and marketing expenses		-15,437	-14,140	-46,568	-45,468
General and administrative expenses		-9,866	-8,004	-27,078	-23,605
Research and development expenses		-20,213	-13,662	-52,775	-47,730
Other operating income	(18)	916	1,110	4,157	4,255
Other operating expenses	(18)	-66	-369	-448	-703
Operating income		**-11,484**	**7,171**	**2,109**	**11,245**
Interest income	(19)	46	68	136	337
Interest expenses	(19)	-222	-95	-586	-502
Other financial gains and losses, net	(20)	-190	-1,143	-2,616	-5,177
Income (loss) before tax		**-11,850**	**6,001**	**-957**	**5,903**
Income tax benefit (expense), net	(21)	-2,139	-2,740	-2,323	2,001
Net income (loss) entitled to the owners of the parent company		**-13,989**	**3,261**	**-3,280**	**7,904**
Earnings per share in EUR					
basic		-0.28	0.07	-0.07	0.16
diluted		-0.28	0.07	-0.07	0.16
Weighted average number of shares for calculation of earnings per share					
basic		49,672,481	49,414,208	49,573,949	49,402,804
diluted		49,672,481	50,134,504	49,573,949	50,123,100

Consolidated Statement of Comprehensive Income (Unaudited)

(in thousands of EUR)	Q3 2017	Q3 2016	9M 2017	9M 2016
Net income (loss) entitled to the owners of the parent company	**-13,989**	**3,261**	**-3,280**	**7,904**
Items that possibly get reclassified to profit or loss in future periods				
Exchange differences on translation of foreign operations	-2,888	-1,371	-6,396	-2,548
Items that do not get reclassified to profit or loss in future periods				
Remeasurement of defined benefit plans	-	-	-2,544	-2,009
Total comprehensive income (loss) entitled to the owners of the parent company	**-16,877**	**1,890**	**-12,220**	**3,347**

Remeasurement of defined benefit plans is regularly done at year-end. Thus in 9M 2017 no effects from remeasurement were recognized.

In 9M 2017 and 9M 2016, no items were reclassified (recycled) from comprehensive income to profit or loss.

Consolidated Cash Flow Statement (Unaudited)

(in thousands of EUR)	Note	Q3 2017	Q3 2016	9M 2017	9M 2016
Cash flow from operating activities					
Income (loss) before tax		-11,850	6,001	-957	5,903
Adjustments to reconcile income (loss) before tax to net cash provided by operating activities					
Non-cash adjustments					
Amortization of non-current assets		15,876	9,391	35,012	29,539
Loss from disposal of property, plant and equipment and intangible assets		51	49	283	66
Stock compensation expenses		896	354	1,577	1,001
Other non-cash income and expenses (net)		3	250	1,369	832
Foreign currency exchange differences		-1,239	-647	-3,737	-1,756
Changes in assets and liabilities					
Decrease (increase) in trade accounts receivable		13,583	-53	4,665	-34,642
Decrease (increase) in inventories		-5,673	-6,337	9,796	6,465
Decrease (increase) in other assets		1,274	-643	3,019	-3,166
Increase (decrease) in trade accounts payable		-30,013	10,667	-38,874	40,730
Increase (decrease) in provisions		-2,839	-201	3,703	4,930
Increase (decrease) in other liabilities		-6,417	-2,945	-5,049	-9,109
Income tax paid		490	-188	-1,427	-680
Net cash provided by/(used in) operating activities		**-25,858**	**15,698**	**9,380**	**40,113**

(in thousands of EUR)	Note	Q3 2017	Q3 2016	9M 2017	9M 2016
Cash flow from investing activities					
Proceeds from government grants		-	-	90	-
Investment in property, plant and equipment	(11)	-2,370	-2,741	-7,277	-8,402
Investment in intangible assets	(12)	-9,336	-12,681	-34,473	-28,901
Net cash paid in the acquisition of affiliated companies		-37,198	-100	-37,198	-32,509
Interest received		43	20	128	43
Net cash used in investing activities		**-48,861**	**-15,502**	**-78,730**	**-69,769**
Cash flow from financing activities					
Proceeds from capital increase and exercise of stock options	(16)	106	235	829	254
Payments received from financial liabilities		55,000	-	55,000	35,000
Cash repayment of financial liabilities		-3,751	-1,562	-13,127	-16,761
Interest paid		-401	-332	-940	-1,057
Net cash provided by/(used in) financing activities		**50,954**	**-1,659**	**41,762**	**17,436**
Net effect of foreign currency translation on cash and cash equivalents		141	180	-133	-392
Net change in cash and cash equivalents		**-23,624**	**-1,283**	**-27,721**	**-12,612**
Cash and cash equivalents at the beginning of the period		80,774	82,521	84,871	93,850
Cash and cash equivalents at the end of the period		**57,150**	**81,238**	**57,150**	**81,238**

Consolidated Statement of Changes in Stockholders' Equity (Unaudited)

(in thousands of EUR, except number of shares)	Share capital					
	Number of shares	Par value	Capital reserve	Net income (loss) and accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity entitled to the owners of the parent company
Balance on January 1, 2016	**49,374,484**	**49,374**	**310,645**	**-148,502**	**4,404**	**215,921**
Capital increase, including exercise of stock options	70,350	71	183			254
Stock options outstanding			1,028			1,028
Net income				7,904		7,904
Exchange differences on translation of foreign operations					-2,548	-2,548
Remeasurement of defined benefit plans	-	-	-		-2,009	-2,009
Total comprehensive income	-	-	-	7,904	-4,557	-4,557
Balance on September 30, 2016	**49,444,834**	**49,445**	**311,856**	**-140,598**	**-153**	**220,550**
Balance on January 1, 2017	**49,498,934**	**49,499**	**312,305**	**-126,970**	**4,113**	**238,947**
Capital increase, including exercise of stock options	185,115	185	644			829
Stock options outstanding			1,062			1,062
Net loss				-3,280		-3,280
Exchange differences on translation of foreign operations					-6,396	-6,396
Remeasurement of defined benefit plans	-	-	-		-2,544	-2,544
Total comprehensive income	-	-	-	-3,280	-8,940	-12,220
Balance on September 30, 2017	**49,684,049**	**49,684**	**314,011**	**-130,250**	**-4,827**	**228,618**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(1) Information about the Company and the Group

ADVA Optical Networking SE (hereinafter referred to as "the Company"), Märzenquelle 1-3, 98617 Meiningen, Germany is a Societas Europaea, registered as HRB 508155 at the commercial register in Jena. The Company's headquarters are in Fraunhoferstrasse 9a, 82152 Martinsried/Munich, Germany.

The ADVA Optical Networking Group (hereinafter referred to as „ADVA Optical Networking" or „the Group") develops, manufactures and sells optical and Ethernet-based networking solutions to telecommunications carriers and enterprises to deliver data, storage, voice and video services.

Telecommunications service providers, private companies, universities and government agencies worldwide use the Group's systems. ADVA Optical Networking sells its product portfolio both directly and through an international network of distribution partners.

(2) Basis of Preparation and Accounting Policies

The Group's consolidated interim financial statements for the period ended September 30, 2017, are prepared in accordance with IAS 34. The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements per December 31, 2016.

The condensed interim consolidated financial statements for the period ended September 30, 2017, have neither been audited nor subject to a limited review by the Group auditor PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Munich.

The condensed interim consolidated financial statements are presented in EUR. Unless otherwise stated, all amounts quoted are in thousands of EUR. The balance sheet is broken down into current and non-current assets and liabilities. The classification of income and expenses in the income statement is based on their function within the entity. Where items on the balance sheet and in the income statement are summarized in the interest of clarity, this is explained in the notes to the consolidated financial statements. The additional disclosure requirements in order to comply with section 315 a paragraph 1 of the German Commercial Code (Handelsgesetzbuch, HGB) are all met.

The interim financial statements of the individual subsidiaries of the holding company ADVA Optical Networking SE, as subsumed in the condensed interim consolidated financial statements, are all prepared using the same accounting and valuation policies and the same balance sheet date.

The result of the nine-month period through September 30, 2017, cannot be extrapolated to the result of the full year 2017.

(3) Effects of New Standards and Interpretations

The accounting policies followed are consistent with those of the prior financial year, except for the adoption of new and amended IFRSs and interpretations (IFRICs) during 9M 2017.

Standards, amendments and interpretations applicable for the first time in 2017
In 9M 2017, following standards and interpretations have been adopted for the first time.

Standard	Topic	First-time adoption*	Expected impact on the financial position and performance
Amendments to IAS 12	Recognition of Deferred Tax Assets Related to Unrealized Losses	Jan. 1, 2017	none
Amendments to IAS 7	Disclosure Initiative	Jan. 1, 2017	none

* To be applied in the first reporting period of a financial year beginning on or after this date.

New accounting requirements not yet endorsed by the EU
The IASB and the IFRIC have issued further Standards and Interpretations in 2017 and previous years that are not applicable for the financial year 2017. In addition, the first-time adoption is subject to endorsement by the EU.

Standard	Topic	First-time adoption*	Expected impact on the financial position and performance
IFRS 9 (2014)	Financial Instruments	Jan. 1, 2018	under review
IFRS 15 including relevant clarifications	Revenue from Contracts with Customers	Jan. 1, 2018	none
IFRS 16	Leases	Jan. 1, 2019	under review
Amendments to IFRS 2	Share-based Payment	Jan. 1, 2018	none
Amendments to IFRS 4	Insurance Contracts	Jan. 1, 2018	none
Amendments to IAS 40	Investment Property	Jan. 1, 2018	none
Annual improvements 2016	The improvements include changes to: IAS 28 – Investments in Associates and Joint Ventures IFRS 12 – Disclosure of Interests in Other Entities as well as editorial amendments to IFRS 1	Jan. 1, 2017 and 2018, respectively	none
IFRIC 22	Foreign Currency Transactions and Advance Considerations	Jan. 1, 2018	under review
IFRIC 23	Uncertainty over Income Tax Treatments	Jan. 1, 2019	under review

* To be applied in the first reporting period of a financial year beginning on or after this date.

IFRS 9 (2014) in its final version replaces IAS 39 Financial Instruments: Recognition and Measurement. It supersedes all regulations previously published. The Standard includes requirements for classification and valuation of financial assets. In addition, a new impairment model based on expected payment defaults is implemented. Furthermore, IFRS 9 contains new hedge accounting rules. ADVA Optical Networking will apply the new standard in the financial year 2018 for the first time. The application will presumably result in changes to the calculation of impairment of financial assets. However, ADVA Optical Networking does not expect significant impact on its financial position and performance of the Group.

IFRS 15 specifies how and when revenues will be recognized based on a single, principles based five-step model to be applied to all contracts with customers. Additionally, the standard defines comprehensive disclosure requirements. ADVA Optical Networking has started a global project for the implementation of the new standard. The first-time adoption will apply prospectively for financial periods starting January 1, 2018. Currently, ADVA Optical Networking does not expect significant impact on its financial performance.

On January 13, 2016, the IASB published IFRS 16 Leases regarding accounting of lease contracts. The new standard will replace IAS 17 Leases and all related interpretations and implements a consistent lease accounting model. Hence, lessees will have to recognize assets (right to use) and lease liabilities for all lease contracts with terms over 12 months. At present, ADVA Optical Networking reviews the potential impact of the application of IFRS 16 on its consolidated financial statements. The standard will be applied for financial years starting January 1, 2019.

Besides the described standards, the adoption of new or revised standards and interpretations – from today's perspective – will not have a material impact on the financial position and performance of the Group. The Group does not plan an early adoption of these standards.

(4) Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's interim financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities on the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Discussed below are the key judgments and assumptions concerning the future and other key sources of estimation of uncertainty on the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year.

Development expenses
Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. See note (12) for the carrying amounts involved.

Impairment of non-financial assets
The Group assesses whether there are any indicators of impairment for all non-financial assets on each reporting date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of these cash flows. See note (11) and (12) for the carrying amounts involved.

Employee benefits
Pension and similar post-employment obligations as well as the related expenses are recognized based on actuarial calculations. The actuarial valuation of the present value of pension obligations depends on a number of assumptions regarding the discount rate, the expected salary increase rate, the expected pension trend, and life expectancy. In the event that changes in the assumptions regarding the valuation parameters are required, the future amounts of the pension obligations as well as the pension benefit costs may be affected materially.

Share-based compensation transactions
The Group measures the cost of equity-settled and cash-settled transactions with employees by reference to the fair value of the equity instruments on the date at which they are granted or on the balance sheet date. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the expected life of the option, volatility and dividend yield, as well as further assumptions.

Provisions
Significant estimates are involved in the determination of provisions related to warranty costs and legal proceedings. The estimate of warranty claims is based on historic data and is extrapolated into the future. Legal proceedings often involve complex legal issues and are subject to substantial uncertainties. Accordingly, management exercises considerable judgment in determining whether there is a present obligation as a result of a past event at the end of the reporting period, whether it is more likely than not that such a proceeding will result in an outflow of resources and whether the amount of the obligation can be reliably estimated. Other provisions are described in note (15).

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expenses already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available to utilize these losses. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(5) Changes in scope of consolidation

Acquisition of MRV Communications Inc.
On August 12, 2017 ADVA NA Holding Inc., Atlanta, Georgia, USA, acquired 100% of the shares of MRV Communications Inc., Chatsworth, California, USA, for a preliminary cash consideration due at the same date of USD 68,124 thousand (EUR 57,904 thousand, translated at the relevant foreign currency exchange rate at the date of payment). Furthermore, additional expenses of the acquisition amounting to EUR 1,165 thousand have been recognized immediately in the income statement.

At the date of the acquisition, the MRV Communications Inc. together with its six active 100% subsidiaries MRV Communications Americas Inc., Chelmsford, Massachusetts, USA (MRV US), MRV Communications Pty, Ltd., Melbourne, Australia (MRV Australia), MRV Communications Ltd., Yokneam, Israel (MRV Israel), MRV International Ltd, Yokneam, Israel (MRV International), MRV Communications GmbH, Darmstadt, Germany (MRV Germany) and MRV Communications B.V., LA Etten-Leur, Netherlands (MRV Netherlands) employed a total number of 211 employees. At the date of the acquisition, four non-active subsidiaries or subsidiaries already in liquiditation existed. Like ADVA Optical Networking, the MRV Communications Group has many years of expertise in optical transmission technology and carrier Ethernet access solutions. In the 29 years of its existence MRV has advanced important innovations in these areas and achieved considerable customer success. The acquisition will expand ADVA Optical Networking's customer base and further strengthen the Company’s competency in key areas.

The preliminary purchase price allocation according to IFRS 3 performed on August 12, 2017, included in the consolidated interim report as of end of September 2017 incorporates the cash consideration as already paid as well as preliminary opening balances of assets and liabilities of MRV Communications Group according to IFRS. During the course of the consolidation, purchased technologies and acquired customer relationships were recognized. Moreover, fair value adjustments regarding inventories, property, plant and equipment, deferred tax liabilities as well as deferred revenues have been considered. The remaining preliminary excess purchase price is classified as goodwill and represents the fair value of anticipated synergies from the acquisition as well as the assembled workforce of the MRV Communications Group.

The expected remaining useful lives of the acquired intangible assets are as follows:

Technology	6 years
Acquired customer relationships	12 years.

The preliminary fair values of acquired assets and liabilities at the date of the acquisition and carrying amounts immediately prior to the date of the acquisition comprise as follows:

(in thousands of EUR)	**Carrying amount**	**Fair value at the date of the acquisition**
Cash and cash equivalents	20,706	20,706
Trade accounts receivable	11,049	11,049
Inventory	5,273	7,721
Property, plant and equipment and other intangible assets	3,597	4,447
Purchased technologies	-	9,528
Acquired customer relationships	-	5,907
Other current and non-current assets	2,714	2,714
Trade accounts payable	-4,932	-4,932
Provisions and other current and non-current liabilities	-19,854	-19,854
Deferred revenues	-	-1,364
Deferred tax liabilities	-	-8,087
Preliminary net assets	**18,553**	**27,835**
Preliminary goodwill		**30,069**
Preliminary purchase price		**57,904**

The preliminary net cash outflow from the acquisition is comprised as follows:

(in thousands of EUR)	
Cash and cash equivalents acquired from the MRV Communications Group	20,706
Cash paid in acquisition	-57,904
Preliminary cash outflow from acquisition	**-37,198**

In 9M 2017, the MRV Communications Group from the date of the acquisition has contributed EUR 5,984 thousand to revenues and negative EUR 2,394 thousand to the net income of ADVA Optical Networking. If the acquisition would have been effective on January 1, 2017, the Group’s revenues would have been increased by EUR 51,039 thousand while net income of the Group would have been EUR 10,462 thousand lower.

Dissolution of OptXCon Inc.
ADVA Optical Networking North America had 44.5% shares in OptXCon Inc., Raleigh (North Carolina), USA. The entity was inactive since 2002 and has been deregistered on May 31, 2017.

(6) Restructuring expenses

In 9M 2017, restructuring expenses including impairment charges of capitalized development projects, severance payments, expenses related to changed use of facilities as well as related legal costs amounting to EUR 8,393 thousand have been recognized. The allocation to functional areas in the consolidated income statement is included in note (22).

(7) Cash and Cash Equivalents

Cash and cash equivalents include the following amounts to which ADVA Optical Networking has only limited access:

(in thousands of EUR)	**Sep. 30, 2017**	**Dec. 31, 2016**
Amounts pledged as security	179	146

On September 30, 2017, cash of EUR 1,067 thousand (December 31, 2016: EUR 3,436 thousand) is held in China and is subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Cash equivalents are invested for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

On September 30, 2017, the Group had EUR 8,000 thousand available (on December 31, 2016: EUR 8,000 thousand) of undrawn committed borrowing facilities in respect of which all conditions had been met.

(8) Trade Accounts Receivable

As a result of an agreement on the sale of accounts receivable entered into on September 16, 2008, interest expenses of EUR 108 thousand were incurred in 9M 2017 (9M 2016: EUR 176 thousand).

(9) Inventories

In 9M 2017, write-downs amounting to EUR 4,745 thousand (9M 2016: EUR 2,958 thousand) were recognized as expense within costs of goods sold. This amount includes reversals of earlier write-downs of EUR 383 thousand (9M 2016: EUR 387 thousand) due to higher selling and input prices.

In 9M 2017 and 9M 2016, material costs of EUR 207,105 thousand and EUR 257,985 thousand, respectively, have been recognized.

(10) Other Current and Non-Current Assets

On September 30, other current assets can be analyzed as follows:

(in thousands of EUR)	**Sep. 30, 2017**	**Dec. 31, 2016**
Non-financial assets		
Prepaid expenses	4,390	2,707
Receivables due from tax authorities	1,239	3,632
Other	1,042	703
Total current non-financial assets	**6,671**	**7,042**
Financial assets		
Government grant allowances for research projects	2,632	2,478
Positive fair values of derivative financial instruments	-	903
Available for sale financial investments	548	-
Other	287	319
Total current financial assets	**3,467**	**3,700**
	10,138	**10,742**

Other current assets are non-interest-bearing and are generally due within 0 to 60 days.

Further disclosures on derivative financial instruments are included in note (20).

On September 30, other non-current assets can be analyzed as follows:

(in thousands of EUR)	Sep. 30, 2017	Dec. 31, 2016
Financial assets		
Investments	1,374	1,374
Government grant allowances for research projects	1,381	1,567
Other	1,502	1,235
Total non-current financial assets	**4,257**	**4,176**

On September 30, 2017 and December 31, 2016, no non-current non-financial assets have been recognized.

Investments relate to 9% of the shares of Saguna Networks Ltd. Nesher, Israel, held by ADVA Optical Networking SE (prior year: 9% of the shares).

On September 30, 2017, government grants for twelve research projects are recognized (December 31, 2016: fourteen research projects). These public grants relate to programs promoted by the EU and national governments.

(11) Property, Plant and Equipment

Property, plant and equipment can be analyzed as follows:

(in thousands of EUR)	Sep. 30, 2017	Dec. 31, 2016
Land and buildings	7,201	8,069
Technical equipment and machinery	16,288	13,707
Factory and office equipment	2,809	2,902
Assets under construction	618	448
	26,916	**25,126**

In 9M 2017 and 9M 2016, there were neither impairments nor write-backs of property, plant and equipment impaired in prior years.

In 9M 2017, the Group has received cash payments of EUR 90 thousand for government grants related to purchases (9M 2016: nil). Based on grant notifications no historical costs have been deducted in 9M 2017 (9M 2016: nil).

(12) Capitalized Development Projects, intangible assets acquired in business combinations and Other Intangible Assets

The table below summarizes the carrying amounts:

(in thousands of EUR)	Sep. 30, 2017	Dec. 31, 2016
Capitalized development projects	83,807	76,263
Intangible assets acquired in business combinations	26,181	14,284
Other intangible assets	5,765	2,145
	115,753	**92,692**

In 9M 2017, borrowing costs of EUR 347 thousand (9M 2016: EUR 539 thousand) were capitalized related to development projects with an expected duration of more than 12 months. Borrowing costs were capitalized at the weighted average rate of the financial liabilities of 1.9%.

Intangible assets acquired in business combinations can be analyzed as follows:

(in thousands of EUR)	Sep. 30, 2017	Dec. 31, 2016
Purchased technology Biran	27	111
Purchased technology Time4 Systems	-	456
Purchased technology FiSEC	775	993
Purchased hardware technology Overture	2,467	3,260
Purchased software technology Overture	3,399	3,919
Purchased technology MRV	9,297	-
Brand Ensemble	153	185
Purchased customer relationships OSA	104	166
Purchased customer relationships Overture	4,144	5,194
Purchased customer relationships MRV	5,815	-
	26,181	**14,284**

Amortization and impairment of intangible assets
Amortization of intangible assets with a finite useful life comprises:

(in thousands of EUR)	Q3 2017	Q3 2016	9M 2017	9M 2016
Capitalized development projects	11,417	5,674	23,175	18,875
Intangible assets acquired in business combinations	1,389	770	2,947	2,212
Other intangible assets	510	572	1,448	1,362
	13,316	**7,016**	**27,570**	**22,449**

Amortization and impairment of intangible assets acquired in business combinations can be analyzed as follows:

(in thousands of EUR)	Q3 2017	Q3 2016	9M 2017	9M 2016
Purchased technology Biran	27	26	83	78
Purchased technology Time4 Systems	392	31	456	95
Purchased technology FiSEC	73	73	218	218
Purchased hardware technology Overture	264	261	793	749
Purchased software technology Overture	173	174	519	493
Purchased technology MRV	197	-	197	-
Brand Ensemble	11	11	32	31
Purchased customer relationship MRV	71	-	71	-
Purchased customer relationships OSA	17	0	54	55
Purchased customer relationships Overture	164	194	524	493
	1,389	**770**	**2,947**	**2,212**

In the income statement, amortization of capitalized development projects and amortization of purchased technology is included in cost of goods sold. Amortization of purchased customer relationship assets is included in selling and marketing expenses.

In 9M 2017, impairment of capitalized development projects and purchased technologies of EUR 4,622 thousand was recognized (9M 2016: nil).

(13) Financial liabilities

On June 30, 2017, ADVA Optical Networking SE signed a new loan contract with Deutsche Bank amounting to EUR 55,000 thousand as a bridge loan for financing of the acquisition of the MRV Communications Group. The loan amount has been paid out on August 8, 2017, and is due for repayment latest on June 30, 2018. An interest rate of 0.5% p.a. applies during the first three months; the interest rate increases by 0.25% p.a. each in the two subsequent quarters and by further 0.15% p.a. in the fourth quarter after signing the contract.

On September 30, 2017, the net book value and fair value of the total loans amount to EUR 101,247 thousand and EUR 101,336 thousand, respectively. For all other financial assets and liabilities included in the balance sheet at September 30, 2017, the fair value corresponds with the book value of the respective positions. The classification of financial assets and liabilities is in line with the disclosure in the Group's annual financial statements per December 31, 2016.

(14) Trade Accounts Payable and Other Current and Non-Current Liabilities

The trade accounts payable are non-interest-bearing and generally due within 30 to 90 days.

Other current liabilities on September 30 can be analyzed as follows:

(in thousands of EUR)	Sep. 30, 2017	Dec. 31, 2016
Non-financial liabilities		
Liabilities to employees for vacation	5,782	2,048
Liabilities due to withheld wage income tax and social security contribution	3,185	1,777
Liabilities due to tax authorities	1,586	1,139
Obligations from subsidized research projects	2,752	2,256
Other	458	1,004
Total current non-financial liabilities	**13,763**	**8,224**
Financial liabilities		
Liabilities to employees for variable compensation and payroll	5,005	14,008
Negative fair values of derivative financial instruments	86	-
Other	1,317	911
Total current financial liabilities	**6,408**	**14,919**
	20,171	**23,143**

On September 30, other non-current liabilities include:

(in thousands of EUR)	Sep. 30, 2017	Dec. 31, 2016
Non-financial liabilities		
Obligations from subsidized research projects	1,683	1,594
Other	1,114	1,469
Total non-current non-financial liabilities	**2,797**	**3,063**
Financial liabilities		
Other	1,190	200
Total non-current financial liabilities	**1,190**	**200**
	3,987	**3,263**

On September 30, 2017, other non-current non-financial liabilities primarily include deferred rental expense of EUR 1,342 thousand (December 31, 2016: EUR 1,377 thousand).

(15) Other Provisions

(in thousands of EUR)	Sep. 30, 2017	Dec. 31, 2016
Current provisions		
Warranty provision	3,441	2,581
Personnel provisions	12,530	530
Other current provisions	12,671	8,678
	28,642	**11,789**
Non-current provisions		
Warranty provision	1,451	1,264
Personnel provisions	156	216
Other non-current provisions	27	27
	1,634	**1,507**
	30,276	**13,296**

The estimated expenses related to warranty claims reflect both past experience and current developments and are based on a percentage of sales revenues. Any differences between actual amounts and anticipated amounts are treated as changes in accounting estimates and affect earnings in the period in which the change occurs.

Current personnel provisions mainly include variable compensation payments, expenses for employee's accident insurance and other expenses resulting from legal requirements. For year-end reporting, variable compensation payments are reclassified to other liabilities.

Other current provisions primarily include provisions for outstanding invoices of uncertain amount and timing and provisions for potential obligations from existing contracts.

Non-current personnel provisions mainly include liabilities from share-based compensation transactions.

(16) Stockholders' Equity

On September 30, 2017, the share capital amounts to EUR 49,684 thousand (on December 31, 2016: EUR 49,499 thousand).

In connection with the exercise of stock options, 185,115 shares were issued to employees and management board of the Company and its Group companies out of conditional capital in 9M 2017. The par value of EUR 185 thousand was appropriated to the share capital, whereas the premium of EUR 644 thousand was recognized as capital reserve.

Further details on stockholders' equity are included in the Consolidated Statement of Changes in Stockholders' Equity.

(17) Revenues

In 9M 2017 and 9M 2016, revenues included EUR 41,387 thousand and EUR 43,055 thousand for services, respectively. The remaining revenues relate mainly to product sales.

A summary of revenues by geographic region is provided in the section on segment reporting under note (22).

(18) Other Operating Income and Expenses

(in thousands of EUR)	Q3 2017	Q3 2016	9M 2017	9M 2016
Other operating income				
Government grants received	600	405	1,377	1,116
Income for the supply of development services	32	80	70	80
Release of bad debt allowances	153	86	483	664
Release of provisions	73	460	980	1,995
Other	58	79	1,247	400
	916	**1,110**	**4,157**	**4,255**
Other operating expenses				
Impairment of trade accounts receivable	-58	-	-61	-150
Deconsolidation result	-	-390		-390
Other	-8	21	-387	-163
	-66	**-369**	**-448**	**-703**
Other operating income and expenses, net	**850**	**741**	**3,709**	**3,552**

(19) Interest Income and Expenses

Interest income primarily includes interest from daily bank deposits and from other short-term deposits with maturities between one day and three months.

Interest expenses are primarily incurred on financial liabilities and on the sale of receivables. Refer to note (8) for further details.

(20) Other Financial Gains (Losses), net, and Derivative Financial Instruments

Other financial gains (losses), net, mainly comprise the following:

(in thousands of EUR)	Q3 2017	Q3 2016	9M 2017	9M 2016
Foreign currency exchange gains	2,501	1,437	6,386	6,599
thereof: gains from forward rate agreements	*3*	*108*	*3*	*461*
Foreign currency exchange losses	-2,692	-2,580	-9,003	-11,776
thereof: losses from forward rate	*-807*	*-558*	*-1,941*	*-2,431*
	-191	**-1,143**	**-2,617**	**-5,177**

Forward rate agreements
Between July 5 and September 27, 2017, the Group entered into thirteen forward rate agreement to hedge foreign currency exposure of expected future cash flows. These agreements mature in Q4 2017. In 9M 2017, net unrealized gains and losses amount to negative EUR 86 thousand (9M 2016: net unrealized gains and losses from seven forward rate agreements amounted to negative EUR 573 thousand).

In 9M 2017, six forward rate agreements signed between January 28, 2016 and June 28, 2017, matured. A total loss of EUR 1,852 thousand was realized on these transactions in 9M 2017 (9M 2016: total net result from eight forward rate agreements of negative EUR 1,397 thousand).

Fair value disclosures

On September 30, 2017, and December 31, 2016, the Group held the following financial instruments measured at fair value:

(in thousands of EUR)	Fair value		Nominal value	
	Sep. 30, 2017	**Dec. 31, 2016**	**Sep. 30, 2017**	**Dec. 31, 2016**
Forward rate agreements	-86	903	3,614	16,075

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

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

The fair value of these transactions is presented within other current liabilities in the statement of financial position.

(21) Income Taxes

The tax expenses in 9M 2017 results from the application of the expected tax rate of the Group, calculated based on a tax planning for the financial year, to the current IFRS result.

(22) Segment Reporting

In accordance with IFRS 8, operating segments are identified based on the way information is reported internally to the chief operating decision maker and regularly reviewed to make decisions about resources to be allocated to the segment and assess its performance. Within the ADVA Optical Networking Group, management decisions are based on pro forma operating results. Pro forma financial information excludes non-cash charges related to share-based compensation plans and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, from Q3 2017 onwards non-recurring expenses related to restructuring measures are not included. Income from capitalization of development expenses is shown separately from research and development expenses.

Segment information on September 30, 2017 is analyzed as follows:

(in thousands of EUR)	Pro forma financial information	Intangible assets from acquisitions	Goodwill	Compensation expenses	Restructuring costs	Disclosure of R&D expenses	Consolidated financial information
Revenues	397,233	-	-	-	-	-	397,233
Cost of goods sold	-265,321	-2,266	-	-155	-4,670	-	-272,412
Gross profit	**131,912**	**-2,266**	**-**	**-155**	**-4,670**	**-**	**124,821**
Gross margin	***33.2%***						***31.4%***
		-	-		-	-	
Selling and marketing expenses	-44,912	-681		-377	-598	-	-46,568
General and administrative expenses	-25,278	-	-	-399	-1,401	-	-27,078
Research and development expenses	-81,166	-	-	-646	-1,724	30,761	-52,775
Income from capitalization of development expenses	30,761	-	-	-	-	-30,761	-
Other operating income	4,157	-	-	-	-	-	4,157
Other operating expenses	-448	-	-	-	-	-	-448
Operating income	**15,026**	**-2,947**	**-**	**-1,577**	**-8,393**	**-**	**2,109**
Operating margin	***3.8%***						***0.5%***
Segment assets	**398,773**	**26,181**	**68,741**	**-**	**-**	**-**	**493,695**

Segment information on September 30, 2016 is analyzed as follows:

(in thousands of EUR)	**Pro forma financial information**	**Intangible assets from acquisitions**	**Goodwill**	**Compensation expenses**	**Restructuring costs**	**Disclosure of R&D expenses**	**Consolidated financial information**
Revenues	438,658	-	-	-	-	-	438,658
Cost of goods sold	-312,481	-1,634	-	-47	-	-	-314,162
Gross profit	**126,177**	**-1,634**	**-**	**-47**	**-**	**-**	**124,496**
Gross margin	***28.8%***						***28.4%***
Selling and marketing expenses	-44,570	-578	-	-320	-	-	-45,468
General and administrative expenses	-23,392	-	-	-213	-	-	-23,605
Research and development expenses	-74,633	-	-	-421	-	27,324	-47,730
Income from capitalization of development expenses	27,324	-	-	-	-	-27,324	-
Other operating income	4,255	-	-	-	-	-	4,255
Other operating expenses	-703	-	-	-	-	-	-703
Operating income	**14,458**	**-2,212**	**-**	**-1,001**	**-**	**-**	**11,245**
Operating margin	***3.3%***						***2.6%***
Segment assets	**411,459**	**14,230**	**40,093**	**-**	**-**	**-**	**465,782**

Additional information by geographical regions:

(in thousands of EUR)	Q3 2017	Q3 2016	9M 2017	9M 2016
Revenues				
Germany	25,522	15,923	88,169	62,667
Rest of Europe, Middle East and Africa	34,643	36,314	111,602	123,162
Americas	43,130	96,441	176,547	227,335
Asia-Pacific	7,878	10,775	20,915	25,494
	111,173	**159,453**	**397,233**	**438,658**

(in thousands of EUR)	Sep. 30, 2017	Dec. 31, 2016
Non-current assets		
Germany	111,113	94,209
Rest of Europe, Middle East and Africa	16,255	17,273
Americas	82,021	45,720
Asia-Pacific	2,021	2,154
	211,410	**159,356**
Deferred tax assets		
Germany	18,725	19,141
Rest of Europe, Middle East and Africa	1,262	1,178
Americas	13,602	15,226
Asia-Pacific	269	454
	33,858	**35,999**

Revenue information is based on the shipment location of the customers.

In 9M 2017, the share of revenues allocated to major end customers was EUR 134,124 thousand (9M 2016: EUR 161,312 thousand). In 9M 2017, revenues with three major customers exceeded 10% of total revenues (9M 2016: revenues with two major customers).

Non-current assets and deferred tax assets are attributed based on the location of the respective Group Company. Non-current assets for the purpose of segment reporting consist of property, plant and equipment, intangible assets and finance lease equipment.

(23) Other Financial Obligations and Financial Commitments

Lease commitments
The Group has non-cancellable operating leases, primarily for buildings and cars.

The future minimum lease payments due on operating leases are listed in the table below:

(in thousands of EUR)	Sep. 30, 2017	Dec. 31, 2016
Up to one year	6,145	9,253
One to five years	10,804	13,113
More than five years	3,794	5,704
	20,743	**28,070**

Other obligations
On September 30, 2017, the Group had purchase commitments totaling EUR 51,104 thousand in respect to suppliers (on December 31, 2016: EUR 44,799 thousand).

Guarantees
Group entities have issued guarantees in favor of customers. On September 30, 2017, performance bonds with a maximum guaranteed amount of EUR 3,255 thousand were issued (on December 31, 2016: EUR 3,819 thousand). At the end of 9M 2017, ADVA Optical Networking does not expect claims from these guarantees.

(24) Contingent Liabilities

In the normal course of business, claims may be asserted or lawsuits filed against the Company and its subsidiaries from time to time. On September 30, 2017, ADVA Optical Networking does not expect that potential titles or litigations in detail or in total will have a material impact on its financial position or operating performance.

(25) Stock Option Programs

Changes in the number of options rights outstanding and similar rights are detailed in the table below:

	Stock Option Program 2003 **Plan IX**	Stock Option Program 2003 for the Management Board **Plan IXb**	Stock Appreciation Rights **Plan XI**	Stock Option Program 2011 **Plan XIV**	Stock Option Program 2011 for the Management Board **Plan XIVa**	Stock Appreciation Rights **Plan XV**
Options outstanding at Jan. 1, 2016	**103,806**	**75,000**	**9,000**	**1,558,677**	**440,000**	**59,400**
Granted options	-	-	-	365,700	401,667	-
Exercised options	-82,950	-	-	-41,500	-	-4,000
Forfeited options	-	-	-	-29,200	-	-
Options outstanding at Dec. 31, 2016	**20,856**	**75,000**	**9,000**	**1,853,677**	**841,667**	**55,400**
Exercised options	-20,856	-	-1,000	-164,259	**-**	-15,200
Forfeited options	-	-75,000	-	-96,000	-	-
Options outstanding at Sep. 30, 2017	**-**	**-**	**8,000**	**1,593,418**	**841,667**	**40,200**
Of which exercisable	-	-	8,000	355,918	100,000	40,200

(26) Related Party Transactions

EGORA Holding GmbH, Martinsried/Munich, and its subsidiaries (the EGORA Group), Saguna Networks Ltd., Arista Networks, Inc. and all members of the Company's governing bodies and their relatives qualify as related parties to ADVA Optical Networking on September 30, 2017, in the sense of IAS 24.

On September 30, 2017, the EGORA Group held a 15.01% equity stake in ADVA Optical Networking.

ADVA Optical Networking SE owns 9% of the shares of Saguna Networks Ltd., Nesher, Israel. A service agreement with Saguna Networks Ltd. exists regarding the provision of development services for the companies of ADVA Optical Networking Group.

All transactions with related parties are conducted on an arm’s-length basis.

In 9M 2017 ADVA Optical Networking acquired components with an amount of EUR 12 thousand from the EGORA Group (9M 2016: EUR 15 thousand).

ADVA Optical Networking has entered into several agreements with the EGORA Group under which ADVA Optical Networking is entitled to make use of certain facilities and services of the EGORA Group. In 9M 2017 and 9M 2016, these agreements were not utilized.

On September 30, 2017, trade accounts payable with an amount of EUR 4 thousand existed in respect to EGORA Group (December 31, 2016: nil).

In 9M 2017 and 9M 2016, Saguna Networks Ltd. has not performed development services for the Group.

In 9M 2017 ADVA Optical Networking acquired components with an amount of EUR 42 thousand from Arista Networks, Inc. (9M 2016: nil). On September 30, 2017, trade accounts payable with an amount of EUR 42 thousand existed in respect to Arista Networks, Inc. (December 31, 2016: nil).

On September 30, 2017 and December 31, 2016, no trade receivables or provisions in respect to related parties existed.

On September 30, 2017, no business relationships existed with any other related party resulting from the board memberships of the ADVA Optical Networking Management and Supervisory Board members as reported in the consolidated financial statements as of December 31, 2016.

See note (27) for information on the Management Board and the Supervisory Board of ADVA Optical Networking.

(27) Governing Boards

Management Board
The members of the Management Board held the following shares and/or had been granted the following stock options:

	Shares		Stock options	
	Sep. 30, 2017	**Dec. 31, 2016**	**Sep. 30, 2017**	**Dec. 31, 2016**
Brian Protiva Chief Executive Officer	401,030	401,030	260,000	335,000
Christoph Glingener Chief Technology Officer & Chief Operating Officer	-	-	325,000	325,000
Ulrich Dopfer Chief Financial Officer	500	500	259,667	259,667

The options to members of the Management Board were granted out of Plan XIV and Plan XIVa. These option rights authorize the Management Board to purchase the said number of common shares in the Company once the qualifying period has elapsed. Plan XIVa include a profit limit of EUR 20.00 per option, whereas Plan XIV has no profit limitations. Additionally, Ulrich Dopfer holds options from Plan XIV that were granted before he joined the ADVA Optical Networking Management Board.

The strike price for these option rights is

- EUR 5.05 for 103,000 options granted on August 15, 2012,
- EUR 3.90 for 130,000 options granted on November 15, 2013,
- EUR 3.19 for 60,000 options granted on May 15, 2014,
- EUR 5.15 for 150,000 options granted on May 15, 2015,
- EUR 8.70 for 401,667 options granted on May 15, 2016, respectively.

Supervisory Board
Members of the Supervisory Board held the following shares:

	Shares	
	Sep. 30, 2017	**Dec. 31, 2016**
Nikos Theodosopoulos Chairman	-	-
Johanna Hey Vice Chairwoman	-	-
Hans-Joachim Grallert (since February 19, 2016)	-	620

On September 30, 2017, trade accounts payable to the Supervisory Board for the pro rata compensation for Q3 2017 with an amount of EUR 58 thousand were recognized (December 31, 2016: EUR 59 thousand). The payment occurred in October 2017.

(28) Events after the Balance Sheet Date

From October 1, 2017, Scott St. John will be member of the Management Board of ADVA Optical Networking acting as Chief Marketing & Sales Officer.

Furthermore, there were no events after the balance sheet date that affected the financial position of the Group on September 30, 2017, or its financial performance for the reporting period then ended. Similarly, there were no events considered material for disclosure.

Declaration of Compliance with the German Corporate Governance Code

Pursuant to Section 161 of the German Stock Corporation Law (AktG), the Management Board and the Supervisory Board have issued a declaration of compliance with the German Corporate Governance Code. This declaration is published on the Group's website (www.advaoptical.com).

Meiningen, October 24, 2017

Brian Protiva

Christoph Glingener   Ulrich Dopfer

Affirmative Declaration of the Legal Representatives

We, the members of the Management Board of ADVA Optical Networking SE, to the best of our knowledge affirm that, in accordance with the applicable reporting principles, the unaudited interim Group management report and the interim consolidated financial statements of the ADVA Optical Networking Group represent a true and fair view of the net assets, financial position and performance of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Meiningen, October 24, 2017

Brian Protiva

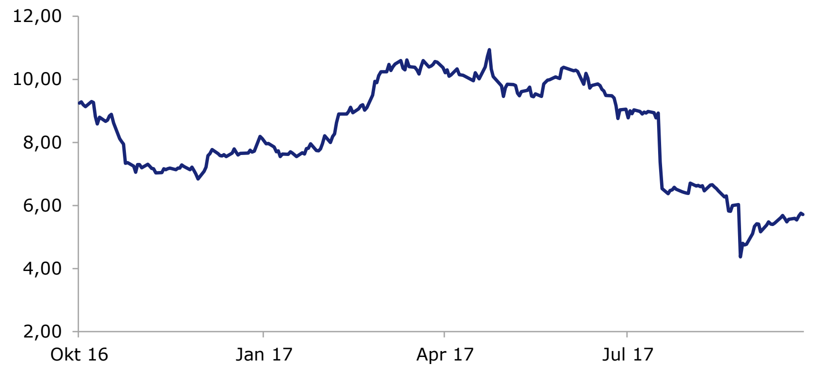
Christoph Glingener   Ulrich Dopfer

Shareholder Information

Stock Information[8]

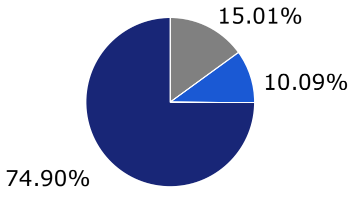
Trade name	ISIN DE0005103006/WKN 510300
Symbol	ADV
Exchange	Prime Standard Segment Frankfurt Stock Exchange
Sector	Technology
Industry	Communications Technology
Number of shares outstanding on September 30, 2017	49,684,049
Price on December 31, 2016	EUR 7.72
Price on September 30, 2017	EUR 5.72
Share price performance YTD (until September 30, 2017)	**-25.9%**
Market capitalization on September 30, 2017	EUR 284.2 million

Stock Price Development October 1, 2016 to September 30, 2017 in EUR

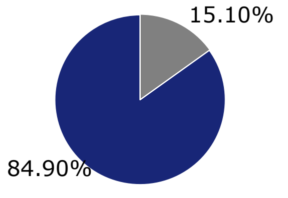


Shareholder Structure

September 30, 2017



December 31, 2016



Shares outstanding

49,684,049	49,498,934
EGORA Group	EGORA Group
Teleios	Free float
Free float	

Financial Calendar

Needham Networking & Security Conference	New York on November 14, 2017
Cowen 4th Annual Networking & Cybersecurity Summit	New York on December 13, 2017
Publication of the Annual Report 2017	February 22, 2018 Martinsried/Munich, Germany

[8] Price information is based on Xetra closing prices

Corporate Information

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ADVA Optical Networking on the Web
More information about ADVA Optical Networking, including solutions, technologies and products, can be found on the Company's website at www.advaoptical.com.

PDF files of this quarterly report, as well as previous quarterly and annual reports, presentations and general investor information, are also located on the Company's website and can be downloaded in both English and German. Quarterly conference calls are conducted on the day of earnings announcements. Related PDF, audio and transcript files are available for download in the investor relations section of the Company's website, www.advaoptical.com.

Investor Communication
To receive an investor packet, request other information, ask specific questions, or be placed on the distribution list, please contact:

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