Six-month report 2018

Connecting, extending and assuring the cloud

ADVA™ Optical Networking

Q2 2018 snapshot

- Revenues of EUR 123.8 million
- IFRS pro forma operating income[1] of EUR 6.1 million (5.0 % of revenues)
- IFRS operating income of EUR 4.1 million and IFRS net income of EUR 4.6 million
- Net liquidity[2] of negative EUR 36.6 million at June 30, 2018

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.

Contents

[1] Pro forma operating income 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, 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.

Q2 2018 IFRS FINANCIAL HIGHLIGHTS

Quarterly income statement

(in thousands of EUR, except earnings per share)	Q2 2018	Q2 2017	Change	6M 2018	6M 2017	Change
Revenues	**123,752**	**144,225**	**-14%**	**244,290**	**286,060**	**-15%**
Pro forma cost of goods sold	-78,363	-97,543	20%	-154,638	-193,255	20%
Pro forma gross profit	**45,389**	**46,682**	**-3%**	**89,652**	**92,805**	**-3%**
Pro forma S&M expenses	-15,375	-14,625	-5%	-30,723	-30,564	-1%
Pro forma G&A expenses	-9,414	-8,871	-6%	-18,267	-17,048	-7%
Pro forma R&D expenses	-26,420	-27,091	2%	-54,302	-54,415	0%
Income from capitalization of development expenses	7,865	11,447	-31%	15,838	22,195	-29%
Other operating income and expenses, net	4,100	1,649	149%	6,186	2,859	116%
Pro forma operating income[1]	**6,145**	**9,191**	**-33%**	**8,384**	**15,832**	**-47%**
Amortization of intangible assets from acquisitions	-1,373	-776	-77%	-2,720	-1,558	-75%
Stock comp. exp.	-354	-323	-10%	-702	-681	-3%
Restructuring expenses	-331	-		-1,299	-	
Operating income	**4,087**	**8,092**	**-49%**	**3,663**	**13,593**	**-73%**
Interest income and expenses, net	-435	-83		-663	-274	
Other financial gains and losses, net	1,272	-1,424		-622	-2,426	
Income (loss) before tax	**4,924**	**6,585**	**-25%**	**2,378**	**10,893**	**-78%**
Income tax benefit (expense), net	-347	-2,061	83%	-241	-184	31%
Net income (loss)	**4,577**	**4,524**	**1%**	**2,137**	**10,709**	**-80%**
Earnings per share in EUR						
basic	0.09	0.09		0.04	0.22	
diluted	0.09	0.09		0.04	0.21	

Balance sheet

(in thousands of EUR)	Jun. 30, 2018	Dec. 31, 2017	Change
Cash and cash equivalents	59,656	58,376	2%
Inventories	76,263	81,694	-7%
Goodwill	69,946	68,167	3%
Capitalized R&D expenses	87,097	85,175	2%
Other intangible assets	33,896	36,785	-8%
Total intangible assets	190,939	190,127	0%
Other assets	147,855	133,822	10%
Total assets	474,713	464,019	2%
Stockholders' equity	233,201	227,021	3%

Cash flow statement

(in thousands of EUR)	Q2 2018	Q2 2017	Change	6M 2018	6M 2017	Change
Cash flow from operating activities	18,074	29,615	-39%	23,721	35,238	-33%
Gross capital expenditures for property, plant and equipment and other intangible assets	-2,715	-2,629	-3%	-5,645	-7,849	28%

Ratios

(in thousands of EUR)	Jun. 30, 2018	Dec. 31, 2017	Change
Net liquidity	-36,594	-38,185	4%
Working capital[3]	121,776	123,828	-2%
	Q2 2018[4]	**Q2 2017[4]**	**Change**
Days sales outstanding	67	62	8%
Inventory turn-over (times/year)	3.9	5.1	-24%
Days payable outstanding	54	67	-19%

Employees

	Jun. 30, 2018	Dec. 31, 2017	Change
	1,842	1,894	-3%

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

[4] Trailing twelve months.

Six-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 SE". "ADVA Optical Networking", "the group" or "ADVA 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 2017.

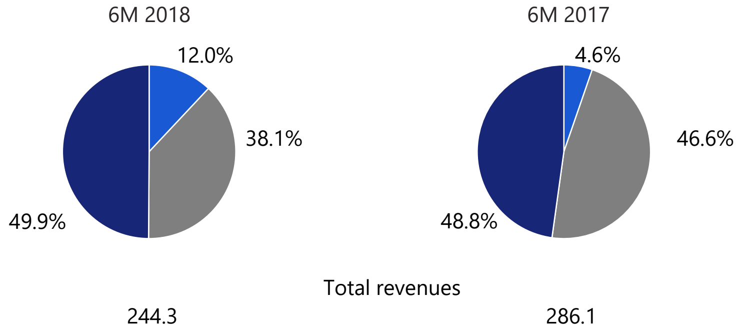
Business development and operational performance

Revenues
Revenues represent one of the four key performance indicators for ADVA Optical Networking. The group's revenues in 6M 2018 amounted to EUR 244.3 million and were EUR 41.8 million or 14.6% below revenues of EUR 286.1 million in 6M 2017. Compared to revenues of EUR 120.5 million in Q1 2018, revenues in Q2 2018 increased by 2.7%. The revenue decline compared to 6M 2017 is still attributable to the significantly lower revenue stream from one major US customer in the ICP segment. The increase in revenues from the previous quarter is driven by solid demand from all regions, both from network operators and large companies. The revenue contribution of internet content providers remained at a similar level as in Q1 2018.

In 6M 2018, Europe, the Middle East and Africa (EMEA) was once again the most important sales region, followed by Americas and Asia-Pacific. Year-on-year, sales in EMEA decreased to EUR 121.8 million in 6M 2018 compared to EUR 139.6 million in 6M 2017, where the year-ago 6M period was exceptionally strong in EMEA. ADVA Optical Networking continues to perform well in this region, and is thriving with a broad, loyal customer base and mature partnering strategy. Revenues in Americas declined significantly by 30.2% from EUR 133.4 million in 6M 2017 to EUR 93.2 million in 6M 2018. As already mentioned above, this decline resulted from the greatly reduced order volume from one of the major internet content providers. In the Asia-Pacific region, sales increased materially to EUR 29.3 million in 6M 2018 compared to EUR 13.0 million in 6M 2017, reflecting good business with MRV's customer base.

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

Americas   EMEA   Asia-Pacific



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)	6M 2018	Portion of revenues	6M 2017	Portion of revenues
Revenues	**244.3**	**100.0%**	**286.1**	**100.0%**
Cost of goods sold	-156.7	64.1%	-194.5	67.9%
Gross profit	**87.6**	**35.9%**	**91.6**	**32.1%**
Selling and marketing expenses	-32.1	13.1%	-31.1	10.9%
General and administrative expenses	-18.6	7.6%	-17.2	6.0%
Research and development expenses	-39.4	16.2%	-32.6	11.4%
Other operating income and expenses, net	6.2	2.5%	2.9	1.0%
Operating income	**3.7**	**1.5%**	**13.6**	**4.8%**
Interest income and expenses, net	-0.7	0.3%	-0.3	0.1%
Other financial gains (losses), net	-0.6	0.2%	-2.4	0.9%
Income before tax	**2.4**	**1.0%**	**10.9**	**3.8%**
Income tax benefit (expense), net	-0.3	0.1%	-0.2	0.1%
Net income	**2.1**	**0.9%**	**10.7**	**3.7%**
Earnings per share in EUR				
Basic	0.04		0.22	
Diluted	0.04		0.21	

Cost of goods sold decreased by EUR 37.8 million to EUR 156.7 million in 6M 2018 mainly due to decreased revenues and customer- and product-mix in the current period. Cost of goods sold include amortization charges for capitalized development projects which increased from EUR 11.9 million in 6M 2017 to EUR 13.9 million in 6M 2018.

Gross profit decreased from EUR 91.6 million in 6M 2017 to EUR 87.6 million in 6M 2018, while gross margin improved to 35.9% in 6M 2018 after 32.1% in 6M 2017. The increase in gross margin in 6M 2018 is driven by a disproportional decrease in cost of goods sold compared to the decrease in revenue mainly due to customer- and product-mix in the current quarter.

Selling and marketing expenses in 6M 2018 were EUR 32.1 million, slightly above the EUR 31.1 million reported in 6M 2017, and representing 13.1% and 10.9% 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 suitable products.

General and administrative expenses at EUR 18.6 million in 6M 2018 were up compared to EUR 17.2 reported in 6M 2017, representing 7.6% and 6.0% of revenues, respectively.

At EUR 39.4 million in 6M 2018, R&D expenses were above the EUR 32.6 million seen in 6M 2017, comprising 16.2% and 11.4% of revenues, respectively. Gross R&D expenses increased slightly to EUR 55.3 million in 6M 2018 compared to EUR 54.8 million reported in 6M 2017. At the same time, income from capitalization of development expenses decreased strongly from EUR 22.2 million in 6M 2017 to EUR 15.8 million in 6M 2018. The capitalization rate in 6M 2018 amounted to 28.6%, significantly below the 40.5% reported in 6M 2017. The decrease in capitalization of development expenses mainly relates to the early closure and impairment of two development projects in the second half of 2017.

In 6M 2018, total operating costs increased from EUR 78.0 million in 6M 2017 to EUR 83.9 million in 6M 2018, representing 27.3% and 34.4% of revenues, respectively. The increase mainly relates to higher personnel expenses due to additional employees considered related to the acquisition of MRV group in the second half of 2017.

ADVA Optical Networking reported a significant decrease in operating income of EUR 3.7 million in 6M 2018 after EUR 13.6 million in 6M 2017. This decrease is largely due to the decline in revenues combined with an increase of operating expenses.

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 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 6M 2018, ADVA Optical Networking reported a pro forma operating income of EUR 8.4 million after EUR 15.8 million in 6M 2017, representing 3.4% and 5.5% of revenues, respectively.

Beyond the operating result, net interest expenses of EUR 0.7 million (6M 2017: EUR 0.3 million) and net other financial losses of EUR 0.6 million (6M 2017: net other financial losses of EUR 2.4 million) relating to the revaluation of foreign currency assets and liabilities and the result on hedging instruments, impacted the net income before tax in 6M 2018.

In 6M 2018, the group reported an income tax expense of EUR 0.3 million after income tax expense of EUR 0.2 million in 6M 2017. The income tax expense in both periods 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.

The decrease of operating result in the current year resulted in ADVA Optical Networking reporting a lower net income of EUR 2.1 million in 6M 2018 after a net income of EUR 10.7 million in 6M 2017.

Summary: Business development and operational performance

In 6M 2018, ADVA Optical Networking reported decreased revenues compared to 6M 2017. The positive development of the gross margin has been compensated by increased operating expenses. Thus, ADVA Optical Networking reported a decreased net income in 6M 2018.

Net assets and financial position

Balance sheet structure

ADVA Optical Networking's total assets increased by EUR 10.7 million from EUR 464.0 million at year-end 2017 to EUR 474.7 million at the end of June 2018.

(in millions of EUR)	Jun. 30, 2018	Dec. 31, 2017
Current assets	243.2	232.6
Non-current assets	231.5	231.4
Total assets	**474.7**	**464.0**
Current liabilities	180.1	184.8
Non-current liabilities	61.4	52.2
Stockholders' equity	233.2	227.0
Total equity and liabilities	**474.7**	**464.0**

Current assets at EUR 243.2 million at the end of 6M 2018 were EUR 10.6 million higher than the EUR 232.6 million reported at the end of 2017, and comprised 51.2% of the balance sheet total after 50.1% at the end of 2017. The increase in current assets is mainly driven by higher trade accounts receivable by EUR 14.6 million to EUR 95.9 million. Days sales outstanding increased to 65.2 days in 6M 2018, compared to the 60.5 days reported in 12M 2017. Moreover, cash and cash equivalents increased by EUR 1.3 million to EUR 59.7 million at the end of June 2018. These effects were partly compensated by a reduction of EUR 5.4 million in inventories to EUR 76.3 million at the end of 6M 2018. Inventory turns remained stable at 4.1 times in 6M 2018 and 12M 2017.

Non-current assets remained stable at EUR 231.5 million on June 30, 2018, after EUR 231.4 million reported at year-end 2017. Within non-current assets goodwill increased by EUR 1.8 million largely due to foreign currency translation effects and capitalized development projects increased by EUR 1.9 million to EUR 87.1 million at the end of June 2018. Deferred tax assets increased by EUR 0.7 million to EUR 11.3 million. At the same time, other intangible assets and property, plant and equipment decreased by EUR 2.9 million and EUR 0.9 million, respectively.

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 decreased by EUR 4.7 million from EUR 184.8 million on December 31, 2017, to EUR 180.1 million on June 30, 2018, primarily related to lower current bank loans by EUR 9.9 million. Moreover, other current liabilities decreased by EUR 7.7 million to EUR 19.1 million at the end of June 2018, largely driven by variable compensation for prior periods paid out in 6M 2018. Trade accounts payable at EUR 50.4 million were strongly above the EUR 39.2 million reported at the end of 2017. Days payable outstanding were at 48.9 days in 6M 2018 compared to 58.7 days in 12M 2017. The increase in trade accounts payable is driven by the timing of material purchases. At the same time, current provisions increased by EUR 2.2 million as employees' variable compensation entitlement for 2018 has been included on a pro rata basis. Contract liabilities amount to EUR 16.1 million on June 30, 2018 and compare to EUR 15.1 million at year-end 2017. Due to the first-time adoption of IFRS 15 in 2018, this position besides deferred revenues includes other contractual obligation related to revenues amounting to EUR 1.3 million.

[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 increased from EUR 52.2 million at year-end 2017 to EUR 61.4 million at the end of June 2018 mainly due to higher financial liabilities from bank loans. Due to the contracting of a new loan contracts as well as the refinancing of an existing loan contract the non-current portion of liabilities from bank loans increased by EUR 9.6 million. Moreover, deferred tax liabilities increased due to further capitalization of development expenses.

Stockholders' equity increased from EUR 227.0 million reported on December 31, 2017, to EUR 233.2 million on June 30, 2018. The equity ratio was at 49.1% on June 30, 2018, after 48.9% on December 31, 2017, while the non-current assets ratio amounted to 100.7% and 98.1%, respectively with stockholders' equity fully covering the non-current assets.

Balance sheet ratios (in %)		**Jun. 30, 2018**	**Dec. 31, 2017**
Equity ratio	Stockholders' equity / Total assets	49.1	48.9
Non-current asset ratio	Stockholders' equity / Non-current assets	100.7	98.1
Liability structure	Current liabilities / Total liabilities	74.6	78.0

Capital expenditures

Capital expenditures for additions to property, plant and equipment in 6M 2018 amounted to EUR 5.0 million, slightly above the EUR 4.9 million seen in 6M 2017.

Capital expenditures for intangible assets of EUR 16.5 million in 6M 2018 were significantly down from EUR 25.1 million in 6M 2017. This total mainly consists of capitalized development projects of EUR 15.8 million in 6M 2018 after EUR 22.2 million in 6M 2017 and capital expenditures for other intangible assets of EUR 0.7 million in 6M 2018 after EUR 2.9 million in 6M 2017.

Cash flow (in millions of EUR)	**6M 2018**	**Portion of cash**	**6M 2017**	**Portion of cash**
Operating cash flow	23.7	39.8%	35.2	43.6%
Investing cash flow	-21.4	35.8%	-29.9	37.0%
Financing cash flow	-1.1	1.9%	-9.2	11.4%
Net effect of foreign currency translation on cash and cash equivalents	0.1	0.1%	-0.2	0.3%
Net change in cash and cash equivalents	**1.3**	**2.1%**	**-4.1**	**5.1%**
Cash and cash equivalents at the beginning of the period	58.4	97.9%	84.9	105.1%
Cash and cash equivalents at the end of the period	**59.7**	**100.0%**	**80.8**	**100.0%**

Cash flow from operating activities was positive EUR 23.7 million in 6M 2018, after positive EUR 35.2 million reported in 6M 2017. In 6M 2018, the positive operating cash flow mainly relates to non-cash depreciation charges. While in 6M 2017, the positive operating cash flow was largely driven by non-cash depreciation charges as well as a higher income before tax.

Cash flow from investing activities amounted to negative EUR 21.4 million in 6M 2018 after negative EUR 29.9 million in 6M 2017. The decreased use of funds for investing activities is largely due to lower investment in intangible assets.

Finally, net cash outflows of EUR 1.1 million were reported from financing activities in 6M 2018, after cash outflows for financing activities EUR 9.2 million reported in 6M 2017. In 6M 2018, the outflows mainly resulted from scheduled servicing of existing debts, partly offset by taking up of new debt. The cash outflow in 6M 2017 was mainly due to scheduled servicing of existing debt as well as cash inflow from increases in equity due to exercise of stock options.

Overall, including the net effect of foreign currency translation of positive EUR 0.1 million in 6M 2018, cash and cash equivalents increased by EUR 1.3 million, from EUR 58.4 million at the end of December 2017 to EUR 59.7 million on June 30, 2018.

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)	**Jun. 30, 2018**	**Dec. 31, 2017**
Current financial liabilities	69.2	79.1
Non-current financial liabilities	27.1	17.5
Total financial liabilities	**96.3**	**96.6**

Total financial liabilities decreased slightly by EUR 0.3 million. While the current portion was down by EUR 9.9 million, the non-current portion increased by EUR 9.6 million at the end of June 2018 due to taking up of new debts for refinancing purposes.

On June 30, 2018, the group had available EUR 8 million of undrawn committed borrowing facilities (December 31, 2017: EUR 8 million).

Net liquidity represents one of the four key performance indicators for ADVA Optical Networking. Mainly due to the increase in cash and cash equivalents ADVA Optical Networking's net liquidity improved from negative EUR 38.2 million at year-end 2017 to negative EUR 36.6 million at the end of June 2018. Cash and cash equivalents on June 30, 2018, and on December 31, 2017, were invested mainly in EUR, USD and GBP. At the end of June 2018 and at the end of December 2017, EUR 0.1 million and EUR 0.3 million of cash and cash equivalents was restricted, respectively.

Net liquidity (in millions of EUR)	**Jun. 30, 2018**	**Dec. 31, 2017**
Cash and cash equivalents	59.7	58.4
- financial liabilities		
current	-69.2	-79.1
non-current	-27.1	-17.5
Net liquidity	**-36.6**	**-38.2**

ADVA Optical Networking's liquidity ratios are as follows:

Financing ratios		Jun. 30, 2018	Dec. 31, 2017
Cash ratio	Cash and cash equivalents / Current liabilities	0.33	0.32
Quick ratio	Monetary current assets* / Current liabilities	0.86	0.76
Current ratio	Current assets / Current liabilities	1.35	1.26

* 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 6M 2018 was at positive 2.6%, down from positive 8.3% reported in 6M 2017. This development is mainly due to the decreased operating result in 6M 2018.

Return on capital employed (ROCE) (base data in millions of EUR)		6M 2018	6M 2017
Operating income		3.7	13.6
Average total assets*		465.7	464.9
Average current liabilities*		177.6	135.7
ROCE	Operating income, annualized / Ø total assets - Ø current liabilities	**2.6%**	**8.3%**

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

Transactions with related parties
Transactions with related individuals and legal entities are discussed in note (29) to the six-month consolidated interim financial statements.

Summary: Net assets and financial position
In 6M 2018, cash and cash equivalents slightly increased and net liquidity improved compared to year-end 2017. The net assets and financial position of ADVA Optical Networking continues to be solid in 6M 2018.

Events after the balance sheet date

There were no events after the balance sheet date that impacted the financial position of the group on June 30, 2018, 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 2017 Annual Report.

Outlook

In Q2 2018, the company delivered sequential growth and increased profitability for the third straight quarter. The forecast for the current third quarter indicates further sequential growth as well as a return to growth relative to the year-ago quarter. Thus, the setback from Q3 2017 on a quarterly basis is a thing of the past. The goal, announced at the beginning of the year, of achieving moderate revenue growth on an annual basis in 2018, is becoming increasingly challenging due to the weaker than expected sales in the first half of the year. However, strong order entry and early indications from major customers point to a strong second half of the year. In terms of profitability, the company remains committed to the outlook for the full business year. The pro forma operating income[1] measured as a percentage of revenues is expected to rise to a mid-single-digit level.

In addition to currency effects in the US dollar and the British pound, the following factors, which are also described in the "Risk report" section of the 2017 annual report under "Opportunities", will play a decisive role:

• The digitalization of society is progressing. More and more applications for daily life are migrating to the cloud. Thus, the strategic importance of a reliable, global and secure communication infrastructure is growing. The construction and expansion of fiberbased infrastructure is set to accelerate even further. Specialists in optical networking and transmission technology such as ADVA will benefit from this development.

• The virtualization of network functions (network functions virtualization, NFV) is changing the business models of network operators. Thanks to NFV, network operators can now largely decouple their services portfolio from the underlying hardware. A universal and programmable infrastructure consisting of transmission technology and servers forms the future-proof foundation on which both current as well as future communication services can be mapped. Telecommunications and data services are added as virtual network functions on an as-needed-basis, independent of the deployed hardware. In the future, providers will be able to react quickly to customer inquiries, benefit from new trends and provide innovative, customer-optimized services in a timely manner and on a global scale. In addition to the FSP 150 product family, it is ADVA's Ensemble software solution that provides additional market differentiation. NFV is driving convergence in the markets for access solutions and expanding ADVA's addressable market. The group sees potential for numerous new customer wins and a higher proportion of software sales in this area.

• Security in information technology is becoming increasingly important and more stringent data protection requirements are impacting on the cloud. The company expects a regionalization in the technical implementation of the data centers and in the selection of the corresponding suppliers. ADVA is the leading European specialist in transmission technology and a reliable partner for thousands of companies. Its ConnectGuard™ security portfolio provides customers with comprehensive protection in different network scenarios and brings numerous competitive advantages. ADVA, as a European company with strong visibility and presence with data center and network operators worldwide, is well positioned in this field.

• The strategic importance of synchronization technology continues to increase. The progressive expansion of mobile networks towards LTE-Advanced (4.5G), as well as the efforts of network operators to prepare for the fifth generation of mobile technology (5G), exacerbate requirements regarding time and frequency synchronization in networks. ADVA's Oscilloquartz product portfolio is industry-leading, winning numerous sync bid tenders in 2017, and promises to outperform revenue growth and margins in 2018.

• The acquisition of MRV broadens ADVA's customer base worldwide and creates access to networks where the group was previously not present. With ADVA covering a much wider range of applications than MRV, the group can now offer more solutions to MRV customers. As a result, there is a chance that additional network applications in the MRV customer base can be addressed and thus more revenue generated. Overall, the number of network suppliers on the market has declined significantly in recent years. As a result of this market consolidation, ADVA's position in the global environment has improved, and the company's profile as a European specialist and reliable partner for innovative network technology is now even sharper.

While the outlook for the global economy is clouding due to impending trade wars, digitalization continues to advance at a relentless pace. The global megatrends cloud and mobility continue to drive demand for scalable, secure and environmentally sustainable communications infrastructure. ADVA's commitment to be 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 distinguishes ADVA from comparable companies and ensures a profitable business model.

Based on these factors and considering planning parameters such as personnel and currency exchange rates, ADVA's management board expects the group to grow revenues in the second half of the year in a high single digit percentage range. Under this assumption, the management board further expects its full year 2018 pro forma operating income[1] to increase in the mid-single-digit percentage range. Net liquidity[2] in 2017 was reduced through the acquisition of MRV. The management board expects an increase from the current level with a gradual return to positive levels in 2019. The group will continue to selectively invest in product development, technology and revenue-generating opportunities. In addition, the management board expects, due to the continued focus on innovation, quality and service, that customer satisfaction measured by 2018's Net Promoter Score[3] will once again be at high positive levels of minimum 40%. Actual results may differ materially from expectations if risks materialize or the underlying assumptions prove unrealistic. The major risks facing ADVA are discussed in the "Risk report" section.

Meiningen, July 17, 2018

Brian Protiva

Christoph Glingener

Ulrich Dopfer

Scott St. John

Six-month IFRS consolidated financial statements

Consolidated statement of financial position (unaudited)

(in thousands of EUR)	Note	Jun. 30, 2018	Dec. 31, 2017
Assets			
Current assets			
Cash and cash equivalents	(8)	59,656	58,376
Trade accounts receivable	(9)	95,878	81,327
Contract Asset		393	n/a
Inventories	(10)	76,263	81,694
Tax assets		1,132	1,438
Other current assets	(11)	9,908	9,804
Total current assets		**243,230**	**232,639**
Non-current assets			
Property, plant and equipment	(12)	25,975	26,898
Goodwill		69,946	68,167
Capitalized development projects	(13)	87,097	85,175
Intangible assets acquired in business combinations	(13)	28,415	30,505
Other intangible assets	(13)	5,481	6,280
Deferred tax assets		11,292	10,614
Other non-current assets	(11)	3,277	3,741
Total non-current assets		**231,483**	**231,380**
Total assets		**474,713**	**464,019**

(in thousands of EUR)	Note	Jun. 30, 2018	Dec. 31, 2017
Equity and liabilities			
Current liabilities			
Financial liabilities	(14)	69,167	79,061
Trade accounts payable	(15)	50,365	39,193
Advance payments received		-	93
Other provisions	(16)	24,216	21,994
Tax liabilities		1,187	2,536
Contract liabilities	(5), (17)	16,116	n/a
Deferred revenues		-	15,062
Other current liabilities	(15)	19,094	26,812
Total current liabilities		**180,145**	**184,751**
Non-current liabilities			
Financial liabilities	(14)	27,083	17,500
Provisions for pensions and similar employee benefits		6,281	5,822
Other provisions	(16)	1,649	1,478
Deferred tax liabilities		17,366	16,867
Contract liabilities	(5), (17)	6,972	n/a
Deferred revenues		-	7,402
Other non-current liabilities	(15)	2,016	3,178
Total non-current liabilities		**61,367**	**52,247**
Total liabilities		**241,512**	**236,998**
Stockholders' equity entitled to the owners of the parent company	(18)		
Share capital (Conditional capital EUR 4,935 thousand; prior year EUR 4,576 thousand)		49,774	49,736
Capital reserve		314,829	314,019
Accumulated deficit		-131,371	-126,970
Net income (loss)		2,137	-4,228
Accumulated other comprehensive income (loss)		-2,168	-5,536
Total stockholders' equity		**233,201**	**227,021**
Total equity and liabilities		**474,713**	**464,019**

Consolidated income statement (unaudited)

(in thousands of EUR, except earnings per share and number of shares)	Note	Q2 2018	Q2 2017	6M 2018	6M 2017
Revenues	(19)	**123,752**	**144,225**	**244,290**	**286,060**
Cost of goods sold		-79,346	-98,124	-156,708	-194,421
Gross profit		**44,406**	**46,101**	**87,582**	**91,639**
Selling and marketing expenses		-16,073	-14,896	-32,044	-31,131
General and administrative expenses		-9,649	-8,952	-18,618	-17,212
Research and development expenses		-18,697	-15,810	-39,443	-32,562
Other operating income	(20)	4,283	1,706	6,422	3,241
Other operating expenses	(20)	-183	-57	-236	-382
Operating income		**4,087**	**8,092**	**3,663**	**13,593**
Interest income	(21)	62	58	132	90
Interest expenses	(21)	-497	-141	-795	-364
Other financial gains and losses, net	(22)	1,272	-1,424	-622	-2,426
Income (loss) before tax		**4,924**	**6,585**	**2,378**	**10,893**
Income tax benefit (expense), net	(23)	-347	-2,061	-241	-184
Net income entitled to the owners of the parent company		**4,577**	**4,524**	**2,137**	**10,709**
Earnings per share in EUR		0.09	0.09	0.04	0.22
basic		0.09	0.09	0.04	0.21
diluted					
Weighted average number of shares for calculation of earnings per share					
basic		49,739,998	49,547,702	49,749,036	49,523,589
diluted		50,132,980	50,231,993	50,142,018	50,207,880

Consolidated statement of comprehensive income (unaudited)

(in thousands of EUR)	Q2 2018	Q2 2017	6M 2018	6M 2017
Net income entitled to the owners of the parent company	**4,577**	**4,524**	**2,137**	**10,709**
Items that possibly get reclassified to profit or loss in future periods				-
Exchange differences on translation of foreign operations	4,656	-5,028	5,668	-3,508
Items that do not get reclassified to profit or loss in future periods				
Remeasurement of defined benefit plans	-	-	-2,300	-2,544
Total comprehensive income (loss) entitled to the owners of the parent company	**9,233**	**-504**	**5,505**	**4,657**

Remeasurement of defined benefit plans is regularly done at year-end. Thus, in 6M 2018 no effects from remeasurement were recognized.

In 6M 2018 and 6M 2017 no items were reclassified (recycled) from comprehensive income to profit or loss.

Consolidated cash flow statement (unaudited)

(in thousands of EUR)	Note	Q2 2018	Q2 2017	6M 2018	6M 2017
Cash flow from operating activities					
Income (loss) before tax		4,924	6,585	2,378	10,893
Adjustments to reconcile income (loss) before tax to net cash provided by operating activities					
Non-cash adjustments					
Amortization of non-current assets		12,262	9,777	23,740	19,136
Loss from disposal of property, plant and equipment and intangible assets		237	126	249	232
Stock compensation expenses		354	323	702	681
Other non-cash income and expenses (net)		344	327	589	1,366
Foreign currency exchange differences		-372	-1,975	992	-2,498
Changes in assets and liabilities					
Decrease (increase) in trade accounts receivable		-9,082	6,711	-14,834	-8,918
Decrease (increase) in inventories		-3,215	4,367	5,431	15,469
Decrease (increase) in other assets		281	-1,339	244	1,745
Increase (decrease) in trade accounts payable		12,916	436	11,172	-8,861
Increase (decrease) in provisions		1,726	4,015	2,534	6,542
Increase (decrease) in other liabilities		-1,524	1,709	-8,360	1,368
Income tax paid		-777	-1,447	-1,116	-1,917
Net cash provided by operating activities		**18,074**	**29,615**	**23,721**	**35,238**

(in thousands of EUR)	Note	Q2 2018	Q2 2017	6M 2018	6M 2017
Cash flow from investing activities					
Proceeds from government grants		-	-	-	90
Investment in property, plant and equipment	(12)	-2,551	-1,752	-4,988	-4,907
Investment in intangible assets	(13)	-8,029	-12,324	-16,495	-25,137
Interest received		51	54	116	85
Net cash used in investing activities		**-10,529**	**-14,022**	**-21,367**	**-29,869**
Cash flow from financing activities					
Proceeds from capital increase and exercise of stock options	(18)	146	723	146	723
Payments received from financial liabilities	(14)	55,000	-	76,250	-
Cash repayment of financial liabilities	(14)	-60,625	-4,688	-76,563	-9,376
Interest paid		-517	-261	-951	-539
Net cash provided by/ (used in) financing activities		**-5,996**	**-4,226**	**-1,118**	**-9,192**
Net effect of foreign currency translation on cash and cash equivalents		412	-302	44	-274
Net change in cash and cash equivalents		**1,961**	**11,065**	**1,280**	**-4,097**
Cash and cash equivalents at the beginning of the period		57,695	69,709	58,376	84,871
Cash and cash equivalents at the end of the period		**59,656**	**80,774**	**59,656**	**80,774**

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, 2017	**49,498,934**	**49,499**	**312,305**	**-126,970**	**4,113**	**238,947**
Capital increase, including exercise of stock options	159,015	159	564			723
Stock options outstanding			705			705
Net income				10,709		10,709
Exchange differences on translation of foreign operations					-3,508	-3,508
Remeasurement of defined benefit plans					-2,544	-2,544
Total comprehensive income				10,709	-6,052	4,657
Balance on June 30, 2017	**49,657,949**	**49,658**	**313,574**	**-116,261**	**-1,939**	**245,032**
Balance on December 31, 2017	**49,735,549**	**49,736**	**314,019**	**-131,198**	**-5,536**	**227,021**
Transition effect from first-time adoption of IFRS 9				-173		-173
Balance on January 1, 2018	**49,735,549**	**49,736**	**314,019**	**-131,371**	**-5,536**	**226,848**
Capital increase, including exercise of stock options	38,700	38	108			146
Stock options outstanding			702			702
Net income				2,137		2,137
Exchange differences on translation of foreign operations					5,668	5,668
Remeasurement of defined benefit plans					-2,300	-2,300
Total comprehensive income				2,137	3,368	5,505
Balance on June 30, 2018	**49,774,249**	**49,774**	**314,829**	**-129,234**	**-2.168**	**233,201**

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" or "ADVA SE"), 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", the "group" or "ADVA 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 June 30, 2018, 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, 2017.

The condensed interim consolidated financial statements for the period ended June 30, 2018, 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 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 six-month period through June 30, 2018, cannot be extrapolated to the result of the full year 2018.

(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 6M 2018.

Standards, amendments and interpretations applicable for the first time in 2018
In 6M 2018, following standards and interpretations have been adopted for the first time.

Standard	Topic	First-time adoption*	Expected impact on the financial position and performance
IFRS 9 (2014)	Financial Instruments	Jan. 1, 2018	See note (4)
IFRS 15 including relevant clarifications	Revenue from Contracts with Customers	Jan. 1, 2018	See note (5)
Amendments to IFRS 2	Share-based Payment	Jan. 1, 2018	none
Amendments to IFRS 4	Insurance Contracts regarding implementation of IFRS 9	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, 2018	none
IFRIC 22	Foreign Currency Transactions and Advance Considerations	Jan. 1, 2018	none

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

Adjustments and changes due to the first-time adoption of IFRS 9 and IFRS 15 are explained in notes (4) and (5).

New accounting requirements not yet applied
The IASB and the IFRIC have issued further Standards and Interpretations in 2018 and previous years that are not applicable for the financial year 2018. In addition, the first-time adoption is partially still subject to endorsement by the EU.

Standard	Topic	First-time adoption*	Expected impact on the financial position and performance
IFRS 16	Leases	Jan. 1, 2019	under review
IFRS 17	Insurance contracts	Jan. 1, 2021	none
Amendments to IAS 40	Investment Property	Jan. 1, 2018	none
Amendments to IFRS 9	Prepayment features with negative compensation	Jan. 1, 2019	none
Amendments to IAS 19	Plan amendment, curtailment or settlement	Jan. 1, 2019	none
Amendments to IAS 28	Long term interest in associates and joint ventures	Jan. 1, 2019	none
Annual improvements 2017	The improvements include changes to: IFRS 3/IFRS 11 – Business combinations/joint ventures IAS 12 – Income taxes IAS 23 – Borrowing costs	Jan. 1, 2019	under review
IFRIC 23	Uncertainty over income tax	Jan. 1, 2019	under review

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

On January 13, 2016, the IASB published IFRS 16 Leases regarding accounting of lease contracts. The new standard will replace IAS 17 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. The current analysis showed that the group has facility and office rents as well as lease contracts for company cars that will have to be recognized as lease assets in the future. Furthermore, no multi-component contracts or other contracts requiring recognition according to IFRS 16 exist. The company does not intent to enter in any such contracts in the future. At present, ADVA Optical Networking reviews the potential impact of the application of IFRS 16 on its consolidated financial statements. The standard will be adopted for financial years starting January 1, 2019 and will apply the modified retrospective approach.

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) Changes due to first-time adoption of IFRS 9

From 2018, the first-time application of IFRS 9 results in changes in the classification and valuation of other investments and trade accounts receivable. Prior year information has not been adjusted.

Investments currently classified as available for sale financial asset will be accounted for as financial asset at fair value through profit and loss in future reporting periods. The values reported according to IAS 39 regulations for available for sales instruments represent the fair value according to IFRS 9.

From 2018, trade accounts receivable that are subject to an agreement for sale of accounts receivable will also be recognized at fair value through profit and loss. They will be presented as a separate item in the notes to the financial statements. Due to the short-term nature of these receivables the carrying amount corresponds with the fair value at the reporting date.

Regarding financial liabilities no changes applied due to the first-time adoption of IFRS 9. Thus, no transition effects are reported regarding financial liabilities.

The following table highlights changes related to valuation categories of financial assets due to the first-time adoption of IFRS 9:

In thousands of EUR	Valuation category		Carrying amount		
	IAS 39	IFRS 9	IAS 39	IFRS 9	difference
Cash and cash equivalents	LaR*)	AC*)	58,376	58,376	-
Trade accounts receivable	LaR*)	AC*)	79,828	79,655	-173
		FVTPL*)	1,499	1,499	-
Other current and non-current financial assets	LaR*)	AC*)	6,121	6,121	-
Derivatives without hedging relationships	FVTPL*)	FVTPL*)	12	12	-
Investments	AfS*)	FVTPL*)	1,374	1,374	-
Total active financial instruments on Jan. 1, 2018			**147,210**	**147,037**	**-173**

*) LaR: loans and receivables; AC: at amortized cost; FVTPL: at fair value through profit or loss; AfS: available for sale

The carrying amounts of financial assets have been adjusted as follows:

In thousands of EUR	AC (LaR 2017) *)	AfS at cost (only 2017) *)	FVTPL*)	Total financial assets
Amount on Dec. 31, 2017 according to IAS 39	145,824	1,374	12	147.210
Revaluation according to IFRS 9	-173	-	-	-173
Reclassification from von LaR to FVTPL	-1,499		1,499	-
Reclassification from AfS at cost to FVTPL		-1,374	1,374	-
Amount on Jan. 1, 2018 according to IFRS 9	**144,152**	**-**	**2.885**	**147,037**

The new impairment model changes the calculation of impairment from an incurred loss model to an expected credit loss model. ADVA Optical Networking calculates the impairment according to IFRS 9 based on the simplified approach on the basis of a Provisions Matrix.

Due to the first-time adoption of IFRS 9 impairment of trade accounts receivable as of January 1, 2018, have been increased by EUR 173 thousand. The transition effect has been reported in retained earnings.

In thousands of EUR	
Impairment	
As of Dec. 31, 2017, according to IAS 39	788
IFRS 9 transition effect	173
As of Jan. 1, 2018, according to IFRS 9	**961**

As of January 1, 2018, no impairment charges applied for other financial assets and contract assets according to IFRS 15. Impairment charges at the current reporting date are explained in the notes to the respective assets if applicable.

(5) Changes due to the first-time adoption of IFRS 15

IFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. As of January 1, 2018, this resulted in reclassifications of receivables, in relation to service contracts and contract liabilities in relation to expected volume discounts, rights to return and a customer loyalty program which have formerly been included in other balance sheet line items. Following items were identified and illustrate reclassifications as of January 1, 2018:

1. Liabilities amounting to EUR 679 thousand in relation to expected volume discounts and refunds to customers previously presented as current provisions will be reclassified to contract liabilities.
2. Liabilities of EUR 284 thousand in relation to the customer loyalty program and outstanding credit notes previously presented as reduction from trade receivables will be presented as contract liabilities.
3. Liabilities amounting to EUR 22,464 thousand in relation to prepaid service contracts previously recognized as deferred revenue will be reclassified to contract liabilities.

(6) 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 (13) 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 to calculate the present value of these cash flows. See note (12) and (13) 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 several assumptions regarding the discount rate, the expected salary increase rate, the expected pension trend, and life expectancy. If 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 (16).

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.

(7) Changes in scope of consolidation

In 6M 2018, the preliminary purchase price allocation from the acquisition of MRV Communications group has been adjusted to align the valuation of obligation for outstanding vacation days as of the acquisition date (August 12, 2017) with the valuation method generally applied by ADVA Optical Networking group. This resulted in an increase of the liability for outstanding vacation days of EUR 324 thousand and a respective increase in goodwill from the acquisition.

(8) 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)	**Jun. 30, 2018**	**Dec. 31, 2017**
Amounts pledged as security	338	277

On June 30, 2018, cash of EUR 3,791 thousand (December 31, 2017: EUR 1,491 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.

On June 30, 2018, the group had EUR 8,000 thousand available (on December 31, 2017: EUR 8,000 thousand) of undrawn committed borrowing facilities in respect of which all conditions had been met.

(9) Trade accounts receivable

The development of the bad debt allowance for trade accounts receivable, that are not subject to factoring, is as follows:

(in thousands of EUR)	
As of Dec. 31, 2017, according to IAS 39	788
IFRS 9 transition effect	173
As of Jan. 1, 2018, according to IFRS 9	**961**
Increase	135
Release	-99
Exchange rate differences	15
As of Jun. 30, 2018	**1,012**

In 6M 2018, additions to the bad debt allowance amounting to EUR 135 thousand are reported in selling and marketing expenses in the income statement. Releases are included in other operating income.

On June 30, 2018 and December 31, 2017 there were no material off balance sheet credit risks.

On June 30, 2018, trade accounts receivables amounting to EUR 2,031 thousand are included, for which an agreement for the sale of accounts receivable exists (December 31, 2017: EUR 1,684 thousand). As a result of this agreement, interest expenses of EUR 84 thousand were incurred in 6M 2018 (6M 2017: EUR 81 thousand).

(10) Inventories

In 6M 2018, write-downs amounting to EUR 3,365 thousand (6M 2017: EUR 3,748 thousand) were recognized as expense within costs of goods sold. This amount includes reversals of earlier write-downs in the amount of EUR 522 thousand (6M 2017: EUR 397 thousand) due to higher selling and input prices.

In 6M 2018 and 6M 2017, material costs of EUR 111,642 thousand and EUR 152,808 thousand, respectively, have been recognized.

(11) Other current and non-current assets

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

(in thousands of EUR)	**Jun. 30, 2018**	**Dec. 31, 2017**
Non-financial assets		
Prepaid expenses	4,461	3,723
Receivables due from tax authorities	1,423	1,881
Other	806	408
Total current non-financial assets	**6,690**	**6,012**
Financial assets		
Government grant allowances for research projects	2,498	2,630
Positive fair values of derivative financial instruments	153	12
Other	567	1,150
Total current financial assets	**3,218**	**3,792**
	9,908	**9,804**

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

Further disclosures on derivative financial instruments are given in note (22).

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

(in thousands of EUR)	Jun. 30, 2018	Dec. 31, 2017
Non-financial assets		
Other	46	26
Total non-current non-financial assets	**46**	**26**
Financial assets		
Investments	1,374	1,374
Government grant allowances for research projects	489	618
Other	1,368	1,723
Total non-current financial assets	**3,231**	**3,715**
	3,277	**3,741**

On June 30, 2018 and December 31, 2017, no impairment on non-current non-financial assets has been recognized.

Investments relate to 7.9% of the shares of Saguna Networks Ltd. Nesher, Israel, held by ADVA Optical Networking SE (prior year: 7.9% of the shares). The investment is recognized at cost as this according to current information corresponds to the fair value of the investment.

On June 30, 2018 and December 31, 2017, government grants for thirteen research projects are recognized. These public grants relate to programs promoted by the EU and national governments. The commitments are partly subject to standard conditions that have been met to date.

(12) Property, plant and equipment

Property, plant and equipment can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2018	Dec. 31, 2017
Land and buildings	6,341	6,941
Technical equipment and machinery	16,845	17,102
Factory and office equipment	2,262	2,615
Assets under construction	527	240
	25,975	**26,898**

In 6M 2018 and 6M 2017, there were neither impairments nor write-backs of property, plant and equipment impaired in prior years.

In 6M 2018, the group has not received any cash payments for government grants related to purchases (6M 2017: EUR 90 thousand). Based on grant notifications no historical costs have been deducted in 6M 2018 (6M 2017: nil).

(13) Capitalized development projects, intangible assets acquired in business combinations and other intangible assets

The table below summarizes the carrying amounts:

(in thousands of EUR)	Jun. 30, 2018	Dec. 31, 2017
Capitalized development projects	87,097	85,175
Intangible assets acquired in business combinations	28,415	30,505
Other intangible assets	5,481	6,280
	120,993	**121,960**

In 6M 2018, borrowing costs of EUR 211 thousand (6M 2017: EUR 218 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 1.7%.

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

(in thousands of EUR)	Jun. 30, 2018	Dec. 31, 2017
Purchased technology Fisec	556	702
Purchased hardware technology Overture	1,674	2,203
Purchased software technology Overture	2,880	3,226
Purchased technology MRV	7,720	8,239
Brand Ensemble	107	128
Purchased customer relationships OSA	51	85
Purchased customer relationships Overture	3,696	3,917
Purchased customer relationships MRV	11,731	12,005
	28,415	**30,505**

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

(in thousands of EUR)	Q2 2018	Q2 2017	6M 2018	6M 2017
Capitalized development projects	7,245	6,059	13,921	11,758
Intangible assets acquired in business combinations	1,373	776	2,720	1,558
Other intangible assets	809	499	1,524	938
	9,427	**7,334**	**18,165**	**14,254**

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

(in thousands of EUR)	Q2 2018	Q2 2017	6M 2018	6M 2017
Purchased technology Biran	-	28	-	56
Purchased technology Time4 Systems	-	32	-	64
Purchased technology FiSEC	72	72	145	145
Purchased hardware technology Overture	265	265	529	529
Purchased software technology Overture	173	173	346	346
Purchased technology MRV	371	-	728	-
Brand Ensemble	10	10	21	21
Purchased customer relationships OSA	17	18	34	37
Purchased customer relationships Overture	163	178	321	360
Purchased customer relationships MRV	302	-	596	-
	1,373	**776**	**2,720**	**1,558**

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 6M 2018 and 6M 2017, no impairment of intangible assets with finite useful economic lives was recognized.

(14) Financial liabilities

In 6M 2018, ADVA Optical Networking signed a new loan contract with Bayerische Landesbank amounting to EUR 10,000 thousand. A variable interest rate of EURIBOR plus 1.25% applies for the loan. The loan principal will be repaid in 6 mainly equal semi-annual instalments of EUR 1,667 thousand starting from June 2019.

Also, in 6M 2018, ADVA Optical Networking signed another loan with IKB (Industriekreditbank) amounting to EUR 11,250 thousand. The loan will be repaid in 12 equal quarterly instalments from Q2 2018. A fixed interest rate of 1.4% applies.

Furthermore, at the end of Q2 2018, ADVA Optical Networking agreed to extend the bridge loan of Deutsche Bank Luxemburg amounting to EUR 55,000 thousand by contracting new short-term loans of EUR 21,500 thousand, each, with Deutsche Bank and Norddeutsche Landesbank as well as EUR 12,000 thousand with Bayerische Landesbank. Fixed rates of interest of 1.5% with Deutsche Bank and Norddeutsche Landesbank, each, and 2.5% with Bayerische Landesbank apply.

The loan agreement with HSBC amounting EUR 11,250 thousand has been fully repaid in March 2018.

On June 30, 2018, the net book value and fair value of the total loans amount to EUR 96,250 thousand and EUR 96,217 thousand, respectively. For all other financial assets and liabilities included in the balance sheet at June 30, 2018, 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, 2017.

(15) 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 June 30 can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2018	Dec. 31, 2017
Non-financial liabilities		
Liabilities to employees for vacation	6,538	3,295
Liabilities due to withheld wage income tax and social security contribution	2,698	2,788
Liabilities due to tax authorities	2,109	1,441
Obligations from subsidized research projects	2,380	2,750
Other	604	470
Total current non-financial liabilities	**14,329**	**10,744**
Financial liabilities		
Liabilities to employees for variable compensation and payroll	3,313	14,118
Negative fair values of derivative financial instruments	145	145
Other	1,307	1,805
Total current financial liabilities	**4,765**	**16,068**
	19,094	**26,812**

On June 30, other non-current liabilities include:

(in thousands of EUR)	Jun. 30, 2018	Dec. 31, 2017
Non-financial liabilities		
Obligations from subsidized research projects	1,142	1,226
Other	813	1,006
Total non-current non-financial liabilities	**1,955**	**2,232**
Financial liabilities		
Other	61	946
Total non-current financial liabilities	**61**	**946**
	2,016	**3,178**

On June 30, 2018, other non-current non-financial liabilities primarily include deferred rental expense of EUR 796 thousand (December 31, 2017: EUR 980 thousand).

(16) Other provisions

(in thousands of EUR)	Jun. 30, 2018	Dec. 31, 2017
Current provisions		
Warranty provision	2,695	3,040
Personnel provisions	8,675	1,911
Other current provisions	12,846	17,043
	24,216	**21,994**
Non-current provisions		
Warranty provision	1,492	1,449
Personnel provisions	129	-
Other non-current provisions	28	29
	1,649	**1,478**
	25,865	**23,472**

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.

(17) Contract liabilities

Due to the first-time adoption of IFRS 15, following liabilities are included in the new balance sheet positions current and non-current contract liabilities. Prior year disclosure has not been adjusted.

(in thousands of EUR)	Jun. 30, 2018	Dec. 31, 2017
Current contract liabilities		
Outstanding credit notes	557	-
Advance payments received	84	-
Other provisions related to deliveries	632	-
Current deferred revenues	14,843	15,062
	16,116	**15,062**
Non-current contract liabilities		
Non-current deferred revenues	6,972	7,402
	6,972	**7,402**
	23,088	**22,464**

(18) Stockholders' equity

On June 30, 2018, the share capital amounts to EUR 49,774 thousand (on December 31, 2017: EUR 49,736 thousand).

In connection with the exercise of stock options, 38,700 shares were issued to employees and management board of the company and its group companies out of conditional capital in 6M 2018. The par value of EUR 38 thousand was appropriated to the share capital, whereas the premium of EUR 108 thousand was recognized as capital reserve.

Further details on stockholders' equity are included in the consolidated statement of changes in stockholders' equity.

(19) Revenues

In 6M 2018 and 6M 2017, revenues included EUR 31,415 thousand and EUR 27,779 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 (25).

(20) Other operating income and expenses

(in thousands of EUR)	Q2 2018	Q2 2017	6M 2018	6M 2017
Other operating income				
Government grants received	605	475	993	777
Income for the supply of development services	28	-	192	38
Release of bad debt allowances	64	157	99	330
Release of provisions	3,286	692	3,666	907
Other	300	382	1,472	1,189
	4,283	**1,706**	**6,422**	**3,241**
Other operating expenses				
Impairment of trade accounts receivable	-6	-3	-12	-3
Other	-177	-54	-224	-379
	-183	**-57**	**-236**	**-382**
Other operating income and expenses, net	**4,100**	**1,649**	**6,186**	**2,859**

(21) 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 (9) for further details.

(22) Other financial gains (losses), net, and derivative financial instruments

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

(in thousands of EUR)	Q2 2018	Q2 2017	6M 2018	6M 2017
Foreign currency exchange gains	6,699	2,490	8,348	3,885
thereof: gains from forward rate agreements	*404*	-	*416*	-
Foreign currency exchange losses	-5,427	-3,914	-8,970	-6,311
thereof: losses from forward rate agreements	*-4*	*-807*	*-271*	*-1,132*
	1,272	**-1,424**	**-622**	**-2,426**

Forward rate agreements
Between March 28 and June 27, 2018, the group entered into fourteen forward rate agreements to hedge foreign currency exposure of expected future cash flows. These agreements mature between July 3 and September 2018. In 6M 2018, unrealized gains and losses, net, amount to EUR 152 thousand (6M 2017: unrealized loss of EUR 491 thousand).

In 6M 2018, twenty-eight forward rate agreements signed between October 4, 2017 and March 21, 2018, matured. A total net loss of EUR 7 thousand was realized on these transactions in 6M 2018 (6M 2017: total realized loss of EUR 641 thousand).

Fair value disclosures

On June 30, 2018, and December 31, 2017, the group held the following financial instruments measured at fair value:

(in thousands of EUR)	Fair value		Nominal value	
	Jun. 30, 2018	Dec. 31, 2017	Jun. 30, 2018	Dec. 31, 2017
Forward rate agreements	153	12	3,995	15,108

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.

(23) Income taxes

The tax expenses in 6M 2018 result from the application of the expected tax rate of the group to the current IFRS result. The expected tax rate is calculated based on a tax planning for the financial year.

(24) Restructuring expenses

In 6M 2018, restructuring expenses including severance payments as well as related legal costs amounting to EUR 1,299 thousand have been recognized (6M 2017: nil). The allocation to functional areas in the consolidated income statement is included in note (25).

(25) 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 expenses related to restructuring measures are not included. Income from capitalization of development expenses is shown as a separate line item and not deducted from research and development expenses.

Segment information on June 30, 2018 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	244,290	-	-	-	-	-	244,290
Cost of goods sold	-154,638	-1,748	-	-30	-292	-	-156,708
Gross profit	**89,652**	**-1,748**	-	**-30**	**-292**	-	**87,582**
Gross margin	***36.7%***						***35.9%***
Selling and marketing expenses	-30,723	-972	-	-220	-129	-	-32,044
General and administrative expenses	-18,267	-	-	-172	-179	-	-18,618
Research and development expenses	-54,302	-	-	-280	-699	15,838	-39,443
Income from capitalization of development expenses	15,838	-	-	-	-	-15,838	-
Other operating income	6,422	-	-	-	-	-	6,422
Other operating expenses	-236	-	-	-	-	-	-236
Operating income	**8,384**	**-2,720**	**-**	**-702**	**-1,299**	**-**	**3,663**
Operating margin	***3.4%***						***1.5%***
Segment assets	**376,352**	**28,415**	**69,946**	**-**	**-**	**-**	**474,713**

Segment information on June 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	286,060	-	-	-	-	-	286,060
Cost of goods sold	-193,255	-1,140	-	-26	-	-	-194,421
Gross profit	**92,805**	**-1,140**	**-**	**-26**	**-**	**-**	**91,639**
Gross margin	***32.4%***						***32.1%***
Selling and marketing expenses	-30,564	-418	-	-149	-	-	-31,131
General and administrative expenses	-17,048	-	-	-164	-	-	-17,212
Research and development expenses	-54,415	-	-	-342	-	22,195	-32,562
Income from capitalization of development expenses	22,195	-	-	-	-	-22,195	-
Other operating income	3,241	-	-	-	-	-	3,241
Other operating expenses	-382	-	-	-	-	-	-382
Operating income	**15,832**	**-1,558**	**-**	**-681**	**-**	**-**	**13,593**
Operating margin	***5.5%***						***4.8%***
Segment assets	**410,928**	**12,348**	**39,643**	**-**	**-**	**-**	**462,919**

Additional information by geographical regions:

(in thousands of EUR)	Q2 2018	Q2 2017	6M 2018	6M 2017
Revenues				
Germany	26,727	28,281	56,667	62,647
Rest of Europe, Middle East and Africa	30,451	40,138	65,171	76,959
Americas	51,879	70,569	93,176	133,417
Asia-Pacific	14,695	5,237	29,276	13,037
	123,752	**144,225**	**244,290**	**286,060**

(in thousands of EUR)	Jun. 30, 2018	Dec. 31, 2017
Non-current assets		
Germany	113,734	113,186
Rest of Europe, Middle East and Africa	15,550	16,221
Americas	85,620	85,433
Asia-Pacific	2,010	2,185
	216,914	**217,025**

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

In 6M 2018, no major customer exceeded 10% of total revenues (6M 2017: one major customer). In 6M 2018, the share of revenues allocated to major end customers was nil (6M 2017: EUR 36,713 thousand).

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.

(26) 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)	Jun. 30, 2018	Dec. 31, 2017
Up to one year	6,689	6,938
One to five years	12,824	11,045
More than five years	7,317	3,844
	26,830	**21,827**

Other obligations
On June 30, 2018, the group had purchase commitments totaling EUR 43,452 thousand in respect to suppliers (on December 31, 2017: EUR 31,206 thousand).

Guarantees
Group entities have issued guarantees in favor of customers. On June 30, 2018, performance bonds with a maximum guaranteed amount of EUR 3,159 thousand were issued (on December 31, 2017: EUR 3,261 thousand). At the end of 6M 2018, ADVA Optical Networking does not expect claims from these guarantees.

(27) 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 June 30, 2018, 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.

(28) 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, 2017	**20,856**	**75,000**	**9,000**	**1,853,677**	**841,667**	**55,400**
Granted options	-	-	-	754,000	150,000	-
Exercised options	-20,856	-	-1,000	-215,759	-	-15,200
Forfeited options	-	-	-	-322,500	-	-
Expired options	-	-75,000	-8,000	-	-	-
Options outstanding at Dec. 31, 2017	**-**	**-**	**-**	**2,069,418**	**991,667**	**40,200**
Granted options	-	-	-	14,000	175,000	-
Exercised options	-	-	-	-38,700	-	-7,300
Forfeited options	-	-	-	-55,400	-	-
Options outstanding at Jun. 30, 2018	**-**	**-**	**-**	**1,989,318**	**1,166,667**	**32,900**
Of which exercisable	-	-	-	355,218	290,000	32,900

(29) Related party transactions

Teleios Capital Partners LLC Zug, Switzerland, EGORA Holding GmbH, Martinsried/Munich, and its subsidiaries (the EGORA group), Saguna Networks Ltd., Nesher, Israel, Arista Networks, Santa Clara, USA, Fraunhofer Heinrich Hertz Institute, Berlin, Harmonic Inc., San Jose, USA., and all members of the company's governing bodies and their relatives qualify as related parties to ADVA Optical Networking on June 30, 2018, in the sense of IAS 24.

Teleios Capital Partners LLC is an investment company based in Zug, Switzerland. On June 30, 2018, Teleios Capital Partners LLC held a 15.01% share in the equity of ADVA Optical Networking. No business relations existed with Teleios Capital Partners LLC.

On June 30, 2018, the EGORA group held a 14.98% share in the equity of ADVA Optical Networking.

ADVA Optical Networking SE holds 7.9% of the shares of Saguna Networks Ltd. A service agreement with Saguna Networks Ltd. exists regarding the provision of development services for the companies of ADVA Optical Networking group.

In 6M 2018, ADVA Optical Networking acquired components with an amount of EUR 3 thousand from the EGORA group (6M 2017: EUR 7 thousand). In 6M 2018 and 6M 2017, ADVA Optical Networking did not sell any products to the EGORA group.

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 6M 2018 and 6M 2017, these agreements were not utilized.

On June 30, 2018, trade accounts payable with an amount of EUR 3 thousand existed in respect to EGORA group (December 31, 2017: nil).

In 6M 2018 and 6M 2017, Saguna Networks Ltd. has not performed development services for the group.

In 6M 2018 and 6M 2017, ADVA Optical Networking did not acquire any components from Arista Networks, Inc. On June 30, 2018, no trade accounts payable and provisions existed in respect to Arista Networks, Inc. (December 31, 2017: nil).

ADVA Optical Networking entered a service agreement with Fraunhofer Heinrich Hertz Institute. In 6M 2018, ADVA Optical Networking acquired services amounting to EUR 75 thousand (6M 2017: nil). On June 30, 2018, no trade accounts payable existed in respect to Fraunhofer Heinrich Hertz Institute (December 31, 2017: EUR 86 thousand).

In 6M 2018, Harmonic Inc. acquired products amounting to EUR 1 thousand from ADVA Optical Networking (6M 2017: nil). On June 30, 2018, no trade accounts receivables existed in respect to Harmonic Inc. (December 31, 2017: EUR 2 thousand).

On June 30, 2018 and December 31, 2017 no provision existed in respect to related parties.

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

See note (30) for detailed information about compensation of the management board and the supervisory board.

(30) 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	
	Jun. 30, 2018	Dec. 31, 2017	Jun. 30, 2018	Dec. 31, 2017
Brian Protiva Chief executive officer	401,030	401,030	335,000	260,000
Christoph Glingener Chief technology officer & chief operating officer	-	-	325,000	325,000
Ulrich Dopfer Chief financial officer	500	500	259,667	259,667
Scott St. John Chief marketing & sales officer (since October 1, 2017)	-	-	250,000	150,000

The options to members of the management board were granted out of Plan XIV and Plan XIVa. Additionally, Ulrich Dopfer holds options from Plan XIV that were granted before he joined the ADVA Optical Networking management board. The 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 includes a profit limit of EUR 20.00 per option, whereas Plan XIV has no profit limitations.

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,
- EUR 4.98 for 150,000 options granted on November 15, 2017,
- EUR 5.79 for 175,000 options granted on May 15, 2018, respectively.

Supervisory board

On June 30, 2018, no shares or stock options were held by members of the supervisory board (December 31, 2017: none).

On June 30, 2018, trade accounts payable to the supervisory board for the pro rata compensation for Q2 2018 with an amount of EUR 56 thousand were recognized (December 31, 2017: EUR 59 thousand). The pay-out of these payables was carried out in July 2018.

Prof. Dr.-Ing. Hans-Joachim Grallert left the supervisory board of ADVA Optical Networking SE with the conclusion of the annual general shareholders meeting effective June 13, 2018. To replace him the shareholders of the company appointed Michael Aquino as a new member of the supervisory board effective June 13, 2018.

(31) Events after the balance sheet date

There were no events after the balance sheet date that impacted the financial position of the group on June 30, 2018, 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, July 17, 2018

Brian Protiva

Christoph Glingener

Ulrich Dopfer

Scott St. John

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, July 17, 2018

Brian Protiva

Christoph Glingener

Ulrich Dopfer

Scott St. John

Shareholder information

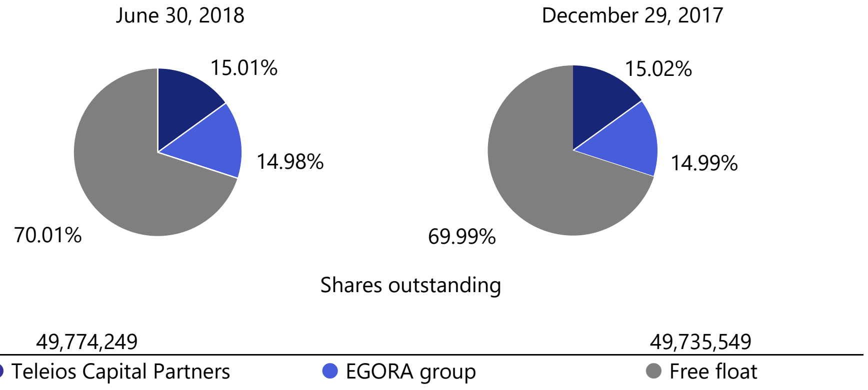
Stock information[6]

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 June 30, 2018	49,774,249
Price on December 29, 2017	EUR 6.04
Price on June 30, 2018	EUR 6.12
Share price performance YTD (until June 30, 2018)	**+1.3%**
Market capitalization on June 30, 2018	EUR 304.6m

Financial calendar

Jefferies 2018 Chicago Investor Summit	August 29, 2018 in Chicago, USA
dbAccess European TMT Conference	September 6, 2018 in London, UK
Liolios Annual Gateway Conference	September 5-6, 2018 in San Francisco, USA
Dougherty & Company Institutional Investor Conference	September 6, 2018 in Minneapolis, USA
Deutsche Bank Technology Conference	September 13, 2018 in Las Vegas, USA
Berenberg and Goldman Sachs Seventh German Corporate Conference	September 24, 2018 in Munich, Germany
Publication of Nine-Month Report	October 25, 2018 Martinsried/Munich, Germany

Shareholder structure



6 Price information is based on Xetra closing prices

Corporate information

Corporate headquarters
ADVA Optical Networking SE
Campus Martinsried
Fraunhoferstrasse 9a
82152 Martinsried/Munich
Germany

t +49 89 89 06 65 0

Registered head office
Maerzenquelle 1-3
98617 Meiningen-Dreissigacker
Germany

t +49 3693 450 0

Americas office
ADVA Optical Networking North America, Inc.
5755 Peachtree Industrial Boulevard
Norcross, Georgia 30092
USA

t +1 678 728 8600

Asia-Pacific office
ADVA Optical Networking (Shenzhen) Ltd.
18/F, Maoye Times Square
Haide 2nd Road
Nanshan District
Shenzhen 518054
China

t +86 755 8621 7400

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:

Stephan Rettenberger
SVP Marketing & Investor Relations
Campus Martinsried
Fraunhoferstrasse 9a
82152 Martinsried/Munich
Germany

t + 49 89 89 06 65 901
investor-relations@advaoptical.com

Auditor
- PricewaterhouseCoopers GmbH
  Wirtschaftsprüfungsgesellschaft, Munich, Germany

Legal counsels
- Hogan Lovells, Munich, Germany

Tax advisers
- Deloitte, Munich, Germany