Six-month report 2019

ADVA™

Open edge networking

LETTER TO THE SHAREHOLDERS

Dear shareholders and business associates,

the current political tensions and disputes between the economic superpowers are increasingly affecting our industry and our company. Some of these ramifications present us with new challenges, others bring opportunities.

For example, the trade conflict between the US and China generates higher tariffs and transport costs, putting pressure on our margins. The strong dollar adds to this pressure. On the other hand, the decision of the US administration to deny access to US technologies to Chinese telecommunications supplier Huawei has changed the competitive landscape around the globe. Especially in Europe, many communication service providers have a large installed base of Huawei technology in their networks. A limited supply capability on the part of the Chinese giant would have an impact on further network expansion and supplier selection. However, Huawei's response to this new situation – and thus the opportunities for us as a trusted partner and supplier in Europe – is not yet completely clear.

We will continue to monitor these events very closely and act as proactively as possible to counteract negative effects and to capitalize quickly on new opportunities.

Good order entry – margins under pressure

Despite growing global political uncertainties, the second quarter of 2019 developed largely as planned. Both revenue and profitability were within our guidance range that we had given on April 18. Compared to Q2 2018, we were able to increase revenues by 7.6%. Geographically, we grew again in the EMEA and Americas regions compared to both the previous year and the previous quarter.

Overall, our order intake was very good, and we are entering the third quarter with well-filled order books. We see interesting projects and activities in all regions and among all customer groups. However, the mix of customers and products changed slightly compared to Q1 2019, so we had lower average margins in Q2. In addition, as mentioned earlier, the strong US dollar and the effects of the trade dispute increase pressure on margins.

As always, we have responded very quickly to these changes and intensify the control of our operational costs in order to meet the current market challenges.

Share price volatility

Our share price had performed very well at the beginning of the year and increased more than 50% from January to mid-April. Unfortunately, a large part of these gains have since eroded. We believe investors are hesitant due to the macropolitical uncertainties and the unknown impact on our competitive landscape and our margins. While the SDAX index performance for the first half of 2019 was in the double-digit range, the ADVA share price is currently far below its 52-week high with lots of room for improvement.

Innovation and new partners

From a market perspective, the growth drivers for our industry continue to be fully intact. The digitization of ecosystems is progressing inexorably, and our three technological core competencies play a significant role in many important applications:

- Our FSP 3000 provides open, scalable and programmable optical transmission technology that further reduces the cost of bit transport while enhancing network flexibility and security. In addition to being deployed in carrier infrastructure, the platform is also widely used by large enterprises and internet content providers (ICPs) for interconnecting large scale data centers. The market introduction of our new TeraFlex™ terminal is proceeding according to plan. The feedback from customers, who have already tested the device, is excellent, and we already have first orders at hand. TeraFlex™ is a powerful tool for network operators to expand the capacity of existing network infrastructure and for ADVA to (re-)gain market share with ICP customers.

- Our FSP 150 family of packet edge solutions together with our Ensemble software products provide flexible and fast delivery of NFV-based services at the network edge. Our Ensemble Connector software has been certified for the Intel® Select solution for uCPE applications (universal customer premise equipment). With Dell EMC we have a new partnership for uCPE. The concept is very interesting for large international companies that rely on system integrators such as Dell EMC for their global IT-solutions. The new partnership gives us access to new markets and additional sales channels for the Ensemble Software. Furthermore, we were able to win in Q2 2019 another application in the Openreach solution portfolio: The UK specialist for network access solutions uses our FSP 150-GO102Pro series as network termination technology for the nationwide launch of small cells. The compact cell site gateway with high-precision phase synchronization plays a key role in providing 5G mobile services in the UK.

- For network synchronization solutions, our success rate for tenders remains very high. The Oscilloquartz portfolio is technologically leading and key products have been validated by the European Advanced Networking Test Center (EANTC) for their IEEE 1588 Precision Time Protocol (PTP) interoperability in a series of tests focused on the new 5G timing requirements.

Positive outlook

While the strong US-dollar and international trade tensions are putting pressure on our margins and operating costs, we still view our market and growth opportunities as very positive. Digitization is changing the networks and bringing the investment focus to us. We have never had such a competitive solution portfolio with world-leading network edge capabilities for building 5G infrastructure, private optical networks or high-precision synchronization solutions.

We continue to win tenders and new customers in our core markets. We are clearly positioned in all major customer segments and geographies, and our portfolio is very well aligned to current and emerging market trends.

For the remainder of this fiscal year we continue to expect solid revenue growth and will invest all our energy and creativity in innovative solutions for the benefit of our customers, shareholders and employees.

July 23, 2019

Brian Protiva

Chief executive officer

CONTENTS

IFRS FINANCIAL HIGHLIGHTS 6M 2019

Income statement

(in thousands of EUR, except earnings per share and ratios)	Q2 2019	Q2 2018	Change	6M 2019	6M 2018	Change
Revenues	133,216	123,752	8%	261,376	244,290	7%
Pro forma operating income*)	4,337	6,145	-29%	7,085	8,384	-15%
Pro forma operating margin in %	3.3%	5.0%	-1.7pp	2.7%	3.4%	-0.7pp
Operating income	2,497	4,087	-39%	3,365	3,663	-8%
Operating margin in %	1.9%	3.3%	-1.4pp	1.3%	1.5%	-0.2pp
Net income	1,297	4,577	-72%	2,333	2,137	9%
Diluted earnings per share in EUR	0.03	0.09		0.05	0.04	

Cash flow statement

(in thousands of EUR)	Q2 2019	Q2 2018	Change	6M 2019	6M 2018	Change
Cash flow from operating activities	21,998	18,074	22%	28,330	23,721	19%
Gross capital expenditure for property, plant and equipment and other intangible assets	-4,007	-2,715	48%	-7,686	-5,645	36%

Balance sheet and financial ratios

(in thousands of EUR)	Jun. 30, 2019	Dec. 31, 2018	Change
Liabilities to banks	80,143	89,484	-10%
Leverage per year*)	1.2	1.4	-8%
Lease liabilities (according to IFRS 16 from Jan. 1, 2019)	36,249	n/a	
Financial debt**)	116,392	89,484	30%
Cash and cash equivalents	-48,275	-62,652	-23%
Net debt*)**)	68,117	26,832	154%
Net working capital*)	127,612	120,475	6%
Equity	247,861	244,641	1%
Equity ratio in %**)	47.8%	50.3%	-2.5pp
Capital Employed*)	360,534	309,317	17%
ROCE in %*)	1.9%	4.8%	-2.9pp

Employees

(at period end)	Jun. 30, 2019	Dec. 31, 2018	Change
	1,917	1,886	2%

*) Key performance indicators and other ratios are defined in the glossary at the end of this document.
**) The first-time adoption of IFRS 16 in the current period has an impact on some key figures. The impact is explained in more detail in the information regarding the results of operations, net assets and financial position as well as in the six-month IFRS consolidated financial statements.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

Business development and operational performance

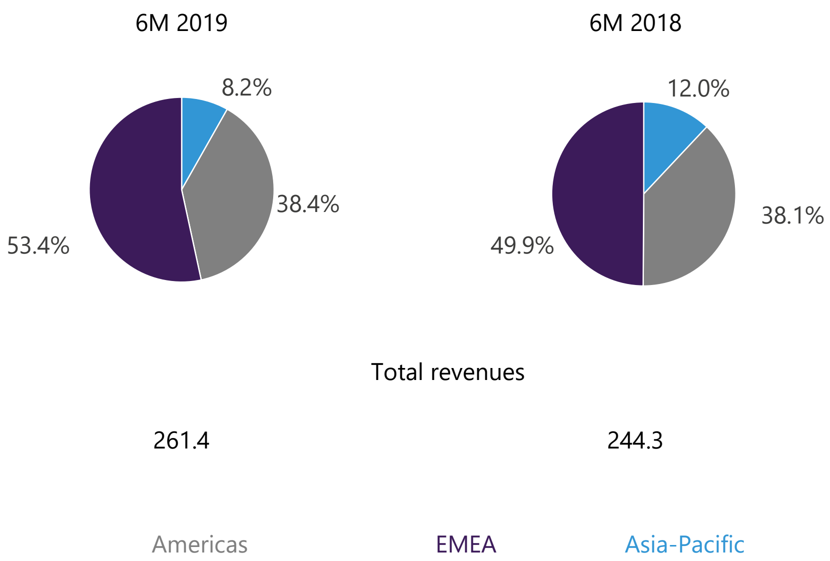
Revenues

Revenues represent one of the four key performance indicators for ADVA. The group's revenues in 6M 2019 amounted to EUR 261.4 million and were EUR 17.1 million or 7.0% above revenues of EUR 244.3 million in 6M 2018. Compared to revenues of EUR 128.2 million in Q1 2019, revenues in Q2 2019 increased by 3.9%. The increase in revenues is driven by solid demand from all customer groups in all technology areas.

In 6M 2019, EMEA (Europe, the Middle East and Africa) was once again the most important sales region, followed by America and Asia-Pacific. Year-on-year, sales in EMEA increased to EUR 139.7 million in 6M 2019 compared to EUR 121.8 million in 6M 2018. ADVA is traditionally strong in this region, uses its established partner strategy and due to a broad and loyal customer base manages to achieve good results. Revenues in America increased by 7.7% from EUR 93.2 million in 6M 2018 to EUR 100.4 million in 6M 2019. In particular, business with network operators developed well in this region. In the Asia-Pacific region, sales declined to EUR 21.3 million in 6M 2019 compared to EUR 29.3 million in 6M 2018. The region is predominated by project-based business, leading to greater fluctuations in individual quarters.

Revenues by region

(in millions of EUR and relative to total revenues)



Results of operations

(in millions of EUR, except earnings per share)	6M 2019	Portion of revenues	6M 2018	Portion of revenues
Revenues	**261.4**	**100.0%**	**244.3**	**100.0%**
Cost of goods sold	-171.6	65.6%	-156.7	64.1%
Gross profit	**89.8**	**34.4%**	**87.6**	**35.9%**
Selling and marketing expenses	-35.3	13.5%	-32.1	13.1%
General and administrative expenses	-17.5	6.7%	-18.6	7.6%
Research and development expenses	-36.7	14.1%	-39.4	16.2%
Other operating income and expenses, net	3.1	1.2%	6.2	2.5%
Operating income	**3.4**	**1.3%**	**3.7**	**1.5%**
Interest income and expenses, net	-1.1	0.4%	-0.7	0.3%
Financial gains and losses, net	0.7	0.3%	-0.6	0.2%
Income before tax	**3.0**	**1.2%**	**2.4**	**1.0%**
Income tax benefit (expense), net	-0.7	0.3%	-0.3	0.1%
Net income	**2.3**	**0.9%**	**2.1**	**0.9%**
Earnings per share in EUR				
basic	0.05		0.04	
diluted	0.05		0.04	

Cost of goods sold increased by EUR 14.9 million to EUR 171.6 million in 6M 2019 mainly due to the increase in revenues. In 6M 2019, cost of goods sold included EUR 15.8 million (6M 2018: EUR 13.9 million) of amortization of capitalized development projects.

Gross profit improved from EUR 87.6 million in 6M 2018 to EUR 89.8 million in 6M 2019, while gross margins declined to 34.4% in 6M 2019 after 35.9% in 6M 2018. The decline in the gross margin in 6M 2019 compared to 6M 2018 results from a change in the customer and product mix.

ADVA's operating income decreased by EUR 0.3 million to a positive EUR 3.4 million in 6M 2019, mainly driven by an increase in operating costs from EUR 83.9 million in 6M 2018 to EUR 86.4 million in the current period. This increase was not fully compensated by the improved gross profit.

Within operating costs, selling and marketing expenses in 6M 2019 of EUR 35.3 million were higher than the prior-year number of EUR 32.1 million. They amounted to 13.5% or 13.1% of revenues and thus increased at a higher rate than revenue growth.

General and administrative expenses of EUR 17.5 million in 6M 2019 decreased from EUR 18.6 million in 6M 2018 and amounted to 6.7% and 7.6% of revenues, respectively.

At EUR 36.7 million in 6M 2019, R&D expenses were down compared to EUR 39.4 million seen in 6M 2018, comprising 14.1% and 16.2% of revenues, respectively. While gross R&D expenses increased to EUR 59.2 million in 6M 2019 compared to EUR 55.3 million reported in 6M 2018 income from capitalization of development expenses increased significantly from EUR 15.8 million in 6M 2018 to EUR 22.6 million in 6M 2019. The capitalization rate in 6M 2019 amounted to 38.1%, substantially up from 28.6% reported in 6M 2018. ADVA’s research and development activities are driven by the distinct emphasis on differentiating its innovative connectivity solutions for cloud and mobile services and working with customers and partners to identify and meet their current and future needs. The resulting key technologies and products simplify complicated network structures and supplement existing solutions.

Pro forma operating income represents one of the four key performance indicators for ADVA. 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 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 2019, ADVA reported a pro forma operating income of EUR 7.1 million after EUR 8.4 million in 6M 2018, representing 2.7% and 3.4% of revenues, respectively.

Beyond the operating result, net interest expenses of EUR 1.1 million (6M 2018: EUR 0.7 million), which, due to the first-time adoption of IFRS 16, include interest effects from lease accounting of EUR 0.6 million. Furthermore, net financial gains of EUR 0.7 million (6M 2018: net financial losses of EUR 0.6 million) relating to the revaluation of foreign currency assets and liabilities and the result on hedging instruments, impacted the net income in 6M 2019.

In 6M 2019, the group reported an income tax expense of EUR 0.7 million after an income tax expense of EUR 0.3 million in 6M 2018. In both periods income tax effects result from the application of the expected tax rate to the relevant income before tax of the respective entity of the ADVA Group.

Summary: Business development and operational performance

In 6M 2019, ADVA reported increased revenues while gross margin at the same time declined. Despite the slightly negative development of the operating result in 6M 2019, which results in particular from the increase of operating expenses, as well as higher tax expenses ADVA shows a net income of EUR 2.3 million in the current period after a net income of EUR 2.1 million in 6M 2018. This improvement results from the positive financial result in the current period.

Net assets and financial position

Balance sheet structure

ADVA's total assets increased by EUR 32.5 million from EUR 486.5 million at the end of 2018 to EUR 519.0 million at the end of June 2019, particularly due to the effects of the first-time adoption of IFRS 16 Leasing.

At EUR 249.1 million at the end of 6M 2019, current assets were EUR 8.1 million lower than the corresponding figure of EUR 257.2 million at the end of 2018, accounting for 48.0% and 52.9% of the balance sheet total, respectively, at these reporting dates. The decrease in current assets was mainly driven by the strong decrease in cash and cash equivalents by EUR 14.4 million to EUR 48.3 million, in particular due to the payment of variable compensation components in 6M 2019. At EUR 88.1 million, inventories were above the level at the end of the previous year. The inventory turns remained unchanged at 4.0x in 6M 2019 compared to 12M 2018. Moreover, trade receivables increased from EUR 97.9 million at December 31, 2018 to EUR 99.9 million at the end of 6M 2019, with average days sales outstanding increased from 68 days in 12M 2018 to 69 days in 6M 2019.

Non-current assets increased to EUR 269.9 million at the end of 6M 2019 from EUR 229.3 million at year-end 2018, mainly due to the capitalization of right-of-use assets of EUR 34.7 million resulting from the first-time adoption of IFRS 16 as mentioned above. The right-of-use assets relate to leased production and administration buildings as well as cars. In addition, capitalized development projects increased by EUR 6.8 million due to the higher capitalization rate.

Meaningful additional assets belonging to ADVA are the broad and global customer base of several hundred service providers and thousands of enterprises, the ADVA 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 represents one of the group's four key performance indicators, highlighting the value of sustainable relationships with customers to ADVA. In 2018, ADVA reported a net promoter score of 52%.

On the equity and liabilities side, current liabilities increased by EUR 6.5 million from EUR 145.6 million on December 31, 2018 to EUR 152.1 million on June 30, 2019. This increase is also primarily attributable to the first-time application of IFRS 16 and the related recognition of EUR 5.3 million in current leasing liabilities. Current provisions increased by EUR 7.0 million for the current period, as employees' variable compensation entitlement for 2019 has been included on a pro rata basis. At the same time, other current liabilities decreased by EUR 6.1 million in particular due to the payment of variable compensation components for 2018 in 6M 2019. At EUR 60.4 million, trade payables were lower than the EUR 63.2 million reported at the end of December 2018. In 6M 2019, days payables outstanding were at 62 days compared to 55 days in 12M 2018. The decrease in trade payables was mainly due to the termination of material purchases. Current contract liabilities amounted to EUR 17.1 million as of June 30, 2019, compared to EUR 14.1 million at year-end 2018.

Non-current liabilities increased strongly from EUR 96.3 million at the end of 2018 to EUR 119.1 million at the end of 6M 2019. The increase mainly results from the aforementioned accounting of liabilities from lease contracts due to the first-time adoption of IFRS 16. Non-current lease liabilities amounted to EUR 30.9 million at the end of 6M 2019. At the same time, non-current liabilities to banks decreased by EUR 9.2 million due to scheduled repayments.

Stockholders' equity increased from EUR 244.6 million reported on December 31, 2018, to EUR 247.9 million on June 30, 2019. The equity ratio was at 47.8% on June 30, 2019, after 50.3% on December 31, 2018, while the non-current assets ratio amounted to 91.8% and 106.7%, respectively with stockholders' equity largely covering the non-current assets. The weakening in the two key figures is in particular due to the recognition of lease liabilities and the capitalization of right- of-use assets in connection with the first-time adoption of IFRS 16.

Capital expenditures

Capital expenditures for additions to property, plant and equipment in 6M 2019 amounted to EUR 7.5 million, above the EUR 5.0 million seen in 6M 2018.

Capital expenditures for intangible assets of EUR 22.7 million in 6M 2019 were also significantly up from EUR 16.5 million in 6M 2018. This total mainly consists of capitalized development projects of EUR 22.5 million in 6M 2019 after EUR 15.8 million in 6M 2018 and capital expenditures for other intangible assets of EUR 0.2 million in 6M 2019 after EUR 0.7 million in 6M 2018.

Cash flow

(in millions of EUR)	6M 2019	Portion of cash	6M 2018	Portion of cash
Operating cash flow	28.3	58.7%	23.7	39.8%
Investing cash flow	-30.1	62.5%	-21.4	35.8%
Financing cash flow	-12.5	25.8%	-1.1	1.9%
Net effect of foreign currency translation on cash and cash equivalents	-0.1	0.2%	0.1	0.1%
Net change in cash and cash equivalents	**-14.4**	**29.8%**	**1.3**	**2.1%**
Cash and cash equivalents at the beginning of the period	62.7	129.8%	58.4	97.9%
Cash and cash equivalents at the end of the period	**48.3**	**100.0%**	**59.7**	**100.0%**

Cash flow from operating activities was positive EUR 28.3 million in 6M 2019, after positive EUR 23.7 million in 6M 2018, and mainly relates to non-cash depreciation charges.

Cash flow from investing activities amounted to negative EUR 30.1 million in 6M 2019 after negative EUR 21.4 million in 6M 2018. The clearly increased use of funds for investing activities is largely due to higher investment in capitalized development projects and property, plant and equipment.

Finally, net cash outflows of EUR 12.5 million were reported from financing activities in 6M 2019, after cash outflows of EUR 1.1 million from financing activities in 6M 2018. The cash outflow in 6M 2019 was due to scheduled servicing of existing liabilities to banks as well as reduction of lease liabilities. The lower cash outflow in 6M 2018 also results in particular from scheduled repayments and interest payments for existing liabilities to banks, which were largely offset by the taking up of new debt of EUR 10.0 million.

Overall, including the net effect of foreign currency translation of negative EUR 0.1 million in 6M 2019, cash and cash equivalents clearly decreased by EUR 14.4 million, from EUR 62.7 million at the end of December 2018 to EUR 48.3 million on June 30, 2019. In addition to local currency restrictions for cash and cash equivalents in China amounting to EUR 4.0 million, cash and cash equivalents include EUR 452 thousand to which ADVA has only limited access.

Financing and liquidity

ADVA's financial management is performed centrally by ADVA SE. Its objective is to provide sufficient funds to ensure ongoing operations and to support the group's projected growth. Beyond the strong equity base appropriate for the business, ADVA finances its business by means of liabilities with maturities typically exceeding the life of the assets being financed. For any liability taken, ADVA is focused on minimizing related interest cost, if access to funds is not at risk. Excess funds are generally used to redeem existing debts.

Due to the first-time adoption of IFRS 16, current and non-current liabilities from leasing amounting to EUR 36.2 million are included in financial debt in 6M 2019. As a consequence, total financial debt increased significantly by EUR 26.9 million to EUR 116.4 million at the end of 6M 2019. While the current portion of liabilities to banks remained fairly stable at EUR 19.3 million, the non-current portion of liabilities to banks decreased to EUR 60.9 million at the end of June 2019 due to scheduled repayments.

On June 30, 2019, the group had available EUR 10.0 million of undrawn committed borrowing facilities (December 31, 2018: EUR 10.0 million).

Net debt represents one of the four key performance indicators for ADVA. Mainly due to the increase in financial debt explained in the previous paragraph ADVA's net debt increased significantly from EUR 26.8 million at year-end 2018 to EUR 68.1 million at the end of June 2019. Cash and cash equivalents on June 30, 2019, and on December 31, 2018, were invested mainly in EUR, USD and GBP.

Return on capital employed in 6M 2019 was at positive 1.9%, down from positive 2.6% reported in 6M 2018. This development is mainly due to the increased capital employed in 6M 2019.

Summary: Net assets and financial position

ADVA's net assets and financial position remained solid in 6M 2019 despite a decline in cash and cash equivalents and an increase in net debt. In particular, net debt was influenced by the initial recognition of lease liabilities in accordance with IFRS 16. At the end of 6M 2019, current liabilities are largely covered by cash and cash equivalents and outstanding trade receivables.

Events after the balance sheet date

There were no events after the balance sheet date that materially impacted the net assets and financial position of the group and ADVA SE on June 30, 2019, or the groups and the company's financial performance for 6M 2019. Similarly, there were no events considered material for disclosure.

Risk report

ADVA'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 2018 Annual Report.

OUTLOOK

The company's management board is adhering to the revenue outlook of February 19, 2019 presented in the 2018 annual report and expects year-on-year revenue growth for 2019 to be in the upper single-digit percentage range.

Due to the strong dollar exchange rate and the additional costs resulting from international trade conflicts, the margin development in Q2 2019 stayed behind the board's expectations. In order to respond to these market challenges the management board has intensified control of its operational cost. Furthermore, the board expects the pro forma operating result to increase and to reach a pro forma operating margin in the mid-single-digit range.

For the financial year 2019, the management board expects a further, significant improvement in the net debt position, before taking into account additional financial debt from the initial application of IFRS 16.

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 2019's Net Promoter Score will once again be at high positive levels of at least 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 of the 2018 Annual Report.

SIX-MONTH IFRS CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position of June 30, 2019 (unaudited)

(in thousands of EUR)	Note	Jun. 30, 2019	Dec. 31, 2018
Assets			
Current assets			
Cash and cash equivalents	(6)	48,275	62,652
Trade accounts receivable	(7)	99,861	97,936
Contract assets	(9)	241	320
Inventories	(8)	88,136	85,734
Tax assets		2,252	1,675
Other current assets	(10)	10,390	8,899
Total current assets		**249,155**	**257,216**
Non-current assets			
Right-of-use assets	(11)	34,672	n/a
Property, plant and equipment	(12)	30,213	29,052
Goodwill		70,820	70,400
Capitalized development projects	(13)	94,702	87,926
Intangible assets acquired in business combinations	(13)	23,343	26,012
Other intangible assets	(13)	4,229	5,512
Deferred tax asset		8,634	7,315
Other non-current assets	(10)	3,277	3,105
Total non-current assets		**269,890**	**229,322**
Total assets		**519,045**	**486,538**

(in thousands of EUR)	Note	Jun. 30, 2019	Dec. 31, 2018
Equity and liabilities			
Current liabilities			
Lease liabilities	(11)	5,347	n/a
Liabilities to banks	(14)	19,264	19,400
Trade accounts payable	(15)	60,385	63,195
Other provisions	(16)	21,971	15,005
Tax liabilities		4,691	5,067
Contract liabilities	(17)	17,062	14,061
Refund liabilities	(17)	1,114	511
Other current liabilities	(15)	22,220	28,337
Total current liabilities		**152,054**	**145,576**
Non-current liabilities			
Lease liabilities	(11)	30,902	n/a
Liabilities to banks	(14)	60,879	70,084
Provisions for pensions and similar employee benefits		6,149	5,531
Other provisions	(16)	1,383	1,453
Deferred tax liabilities		12,377	10,828
Contract liabilities	(17)	6,352	6,469
Other non-current liabilities	(15)	1,088	1,956
Total non-current liabilities		**119,130**	**96,321**
Total liabilities		**271,184**	**241,897**
Stockholders' equity entitled to the owners of the parent company	(18)		
Share capital (Conditional capital EUR 4,746 thousand; prior year EUR 4,778 thousand)		49,963	49,931
Capital reserve		317,092	316,072
Accumulated deficit		-121,693	-131,371
Net income		2,333	9,678
Accumulated other comprehensive income		166	331
Total stockholders' equity		**247,861**	**244,641**
Total equity and liabilities		**519,045**	**486,538**

Consolidated income statement
for the period from January 1 to June 30, 2019 (unaudited)

(in thousands of EUR, except earnings per share and number of shares)	Note	Q2 2019	Q2 2018	6M 2019	6M 2018
Revenues	(19)	**133,216**	**123,752**	**261,376**	**244,290**
Cost of goods sold		-87,628	-79,346	-171,578	-156,708
Gross profit		**45,588**	**44,406**	**89,798**	**87,582**
Selling and marketing expenses*		-18,069	-16,073	-35,342	-32,044
General and administrative expenses		-8,746	-9,649	-17,461	-18,618
Research and development expenses		-18,094	-18,697	-36,684	-39,443
Other operating income	(20)	1,846	4,283	3,184	6,422
Other operating expenses	(20)	-28	-183	-130	-236
Operating income		**2,497**	**4,087**	**3,365**	**3,663**
Interest income	(21)	42	62	290	132
Interest expenses	(21)	-713	-497	-1,376	-795
Currency translation gains and losses, net	(22)	-44	1,272	740	-622
Other financial gains and losses, net		-	-	-	-
Income before tax		**1,782**	**4,924**	**3,019**	**2,378**
Income tax (expense) benefit, net	(23)	-485	-347	-686	-241
Net income entitled to the owners of the parent company		**1,297**	**4,577**	**2,333**	**2,137**
Earnings per share in EUR					
basic		0.03	0.09	0.05	0.04
diluted		0.03	0.09	0.05	0.04
Weighted average number of shares for calculation of earnings per share					
basic		49,938,521	49,739,998	49,948,973	49,749,036
diluted		50,535,324	50,132,980	50,545,776	50,142,018

* Selling and marketing expenses include EUR 4 thousand income from changes of risk provision for trade accounts receivable according to IFRS 9.

Consolidated statement of comprehensive income (unaudited)

(in thousands of EUR)	Note	Q2 2019	Q2 2018	6M 2019	6M 2018
Net income entitled to the owners of the parent company		**1,297**	**4,577**	**2,333**	**2,137**
Items that possibly get reclassified to profit or loss in future periods					
Exchange differences on translation of foreign operations		-2,697	4,656	1,828	5,668
Items that do not get reclassified to profit or loss in future periods					
Remeasurement of defined benefit plans		-	-	-1,993	-2,300
Total comprehensive income/(loss) entitled to the owners of the parent company		**-1,400**	**9,233**	**2,168**	**5,505**

Remeasurement of defined benefit plans is regularly done at year-end. Thus, in 6M 2019 no effects from remeasurement were recognized.

In 6M 2019 and 6M 2018 no items were reclassified (recycled) from comprehensive income to profit or loss.

Consolidated cash flow statement (unaudited)

(in thousands of EUR)	Note	Q2 2019	Q2 2018	6M 2019	6M 2018
Cash flow from operating activities					
Income before tax		1,782	4,924	3,019	2,378
Adjustments to reconcile income before tax to net cash provided by operating activities					
Non-cash adjustments					
Amortization of non-current assets		15,660	12,262	29,741	23,740
Loss from disposal of property, plant and equipment and intangible assets		47	237	84	249
Stock compensation expenses		431	354	896	702
Other non-cash expenses		282	344	361	589
Foreign currency exchange differences		-1,305	-372	-1,198	992
Changes in assets and liabilities					
Decrease (increase) in trade accounts receivable		-385	-9,082	-1,846	-14,834
Decrease (increase) in inventories		-3,559	-3,215	-2,402	5,431
Decrease (increase) in other assets		313	281	-1,753	244
Increase (decrease) in trade accounts payable		8,419	12,916	-2,810	11,172
Increase (decrease) in provisions		1,043	1,726	6,927	2,534
Increase (decrease) in other liabilities		270	-1,524	-1,681	-8,360
Income tax paid		-1,000	-777	-1,008	-1,116
Net cash provided by operating activities		**21,998**	**18,074**	**28,330**	**23,721**
Cash flow from investing activities					
Investments in property, plant and equipment	(12)	-3,987	-2,551	-7,504	-4,988
Investments in intangible assets	(13)	-11,104	-8,029	-22,739	-16,495
Interest received		41	51	90	116
Net cash used for investing activities		**-15,050**	**-10,529**	**-30,153**	**-21,367**
Cash flow from financing activities					
Proceeds from capital increase and exercise of stock options	(18)	156	146	156	146
Decrease of lease liabilities	(11)	-1,116	n/a	-1,973	n/a
Payments received from liabilities to banks	(14)	-	55,000	-	76,250
Cash repayment of liabilities to banks	(14)	-6,125	-60,625	-9,250	-76,563
Interest paid		-710	-517	-1,394	-951
Net cash used in financing activities		**-7,795**	**-5,996**	**-12,461**	**-1,118**
Net effect of foreign currency translation on cash and cash equivalents		-201	412	-93	44
Net change in cash and cash equivalents		**-1,048**	**1,961**	**-14,377**	**1,280**
Cash and cash equivalents at the beginning of the period		49,323	57,695	62,652	58,376
Cash and cash equivalents at the end of the period		**48,275**	**59,656**	**48,275**	**59,656**

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, 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**
Balance on January 1, 2019	**49,930,955**	**49,931**	**316,072**	**-121,693**	**331**	**244,641**
Capital increase, including exercise of stock options	32,000	32	124			156
Stock options outstanding			896			896
Net income				2,333		2,333
Exchange differences on translation of foreign operations					1,828	1,828
Remeasurement of defined benefit plans					-1,993	-1,993
Total comprehensive income				2,333	-165	2,168
Balance on June 30, 2019	**49,962,955**	**49,963**	**317,092**	**-119,360**	**166**	**247,861**

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", "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 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, 2019, 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, 2018.

The condensed interim consolidated financial statements for the period ended June 30, 2019, 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 e 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 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, 2019, 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 2019.

Standards, amendments and interpretations applicable for the first time in 2019

In 6M 2019, 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 16	Leases	Jan. 1, 2019	See note (4)
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 arrangements IAS 12 – Income taxes IAS 23 – Borrowing costs	Jan. 1, 2019	none
IFRIC 23	Uncertainty over income tax	Jan. 1, 2019	none

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

New accounting requirements not yet applied

The IASB and the IFRIC have issued further Standards and Interpretations in 2019 and previous years that are not applicable for the financial year 2019. 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 17	Insurance contracts	Jan. 1, 2021	none
Amendments to the IFRS conceptual framework	Revised definitions of assets and liabilities and new guidelines on valuation and derecognition, presentation and disclosure	Jan. 1, 2020	under review
Amendments to IFRS 3	Definition of business	Jan. 1, 2020	under review
Amendments to IAS 1 and IAS 8	Definition of materiality	Jan. 1, 2020	under review

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

(4) Changes due to first-time adoption of IFRS 16

On January 1, 2019, IFRS 16 Leases was applied for the first time. An analysis by the group showed that the leases to be accounted for in the future are mainly building and office leases as well as car leases. ADVA capitalized right-of-use assets for these leases using the modified retrospective method and recognized corresponding financial liabilities. Beyond this, there are no multi-component contracts or other contracts that would have to be accounted for in accordance with IFRS 16 and are not planned for the future either.

Upon first-time adoption, the simplification options were used to exclude current and low-value leases from capitalization as right-of-use assets.

Compared to the previous accounting treatment under IAS 17 the application of IFRS 16 resulted in a decline of EUR 498 thousand in net profit for 6M 2019. At the same time, earnings before interest and taxes (EBIT) improved by EUR 90 thousand and the financial result decreased by EUR 588 thousand.

In the consolidated cash flow statement for the first half of 2019, payments from IFRS 16 amounting to EUR 1,973 thousand were reported as cash outflows from financing activities, which would have been reported as cash outflows from operating activities previously in accordance with IAS 17.

A weighted average interest rate of 3.2% was applied for the valuation of lease liability.

The previous information on future lease obligations can be reconciled to the lease liabilities recognized as of January 1, 2019, as follows:

(in thousands of EUR)	
Commitments for operating leases reported on Dec. 31, 2018	**28,117**
Current and low-value leases recognized as expenses on a straight-line basis	-336
Changes due to the consideration of prolongation options of lease contracts	11,474
Interest share considering country-specific marginal interest rate	-2,204
Lease liabilities recognized as of Jan. 1, 2019	**37,051**
thereof: current	*5,366*
thereof: non-current	*31,685*

Further information regarding the corresponding balance sheet items and effects on the performance of the group are shown in note (11).

(5) 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).

Transaction price for customer loyalty programs

Points accumulated for purchases provide a material right to customers that they would not receive without entering into a contract. The transaction price is allocated to the product and the points on a relative stand-alone selling price basis. Management estimates the selling price per point on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience.

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.

(6) Cash and cash equivalents

Cash and cash equivalents include current funds as well as current financial assets with an original remaining maturity that does not exceed three months. On June 30, 2019, and December 31, 2018, cash and cash equivalents include EUR 452 thousand and EUR 334 thousand, respectively, to which ADVA has only limited access.

On June 30, 2019, cash of EUR 3,987 thousand (December 31, 2018: EUR 2,759 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, 2019, the group had EUR 10,000 thousand available (on December 31, 2018: EUR 10,000 thousand) of undrawn committed borrowing facilities in respect of which all conditions had been met.

(7) Trade accounts receivable

Trade accounts receivable are non-interest-bearing and are due within 30 to 120 days in general. For specific projects, other payment terms may be agreed.

Gross and net trade accounts receivable are as follows:

(in thousands of EUR)	2019	2018
Gross trade accounts receivable	**100,499**	**98,574**
Depreciation	-638	-638
Net trade accounts receivable	**99,861**	**97,936**

(8) Inventories

In 6M 2019, write-downs amounting to EUR 1,601 thousand (6M 2018: EUR 3,365 thousand) were recognized as expense within costs of goods sold. This amount includes reversals of earlier write-downs in the amount of EUR 651 thousand (6M 2018: EUR 522 thousand) due to higher selling and input prices.

In 6M 2019 and 6M 2018, material costs of EUR 122,302 thousand and EUR 111,642 thousand, respectively, have been recognized.

(9) Contract assets

The contract assets amounting to EUR 241 thousand relate to a service contract with a customer in the US (December 31, 2018: EUR 320 thousand). In general, contract assets are subject to the impairment requirements of IFRS 9. As the identified impairment losses were insignificant, they have not been recognized in 6M 2019.

(10) Other current and non-current assets

On June 30, 2019, and at prior year-end other current assets analyze as follows:

(in thousands of EUR)	**Jun. 30, 2019**	**Dec. 31, 2018**
Non-financial assets		
Prepaid expenses	4,393	2,798
Receivables due from tax authorities	1,369	2,054
Other	951	771
Total current non-financial assets	**6,713**	**5,623**
Financial assets		
Government grant allowances for research projects	2,403	2,097
Positive fair values of derivative financial instruments	126	108
Investments for sale	-	393
Other	1,148	678
Total current financial assets	**3,677**	**3,276**
	10,390	**8,899**

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

On June 30, 2019, and December 31, 2018, other non-current assets only include financial assets. They analyze as follows:

(in thousands of EUR)	**Jun. 30, 2019**	**Dec. 31, 2018**
Financial assets		
Investments	1,374	1,374
Government grant allowances for research projects	286	275
Other	1,617	1,456
Total non-current financial assets	**3,277**	**3,105**

On June 30, 2019 and December 31, 2018, no impairment on non-current non-financial assets has been recognized.

The measurement of the assets and liabilities at fair value through profit or loss is based on fair values of Level 2 and Level 3.

Forward rate agreements are measured using quoted forward exchange rates and yield curves derived from quoted interest rates according to the maturities of the contract.

Investments relate to 7.1% of the shares of Saguna Networks Ltd. Nesher, Israel, held by ADVA SE (prior year: 7.1% of the shares), with no quoted prices in active markets. Input factors for the valuation are share prices from past investment rounds and current purchase price offers from other investors in Saguna Networks Ltd.

For all other financial assets included in the balance sheet at June 30, 2019, 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, 2018.

On June 30, 2019 and December 31, 2018, government grants for 14 and 13 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.

(11) Right-of-use assets and lease liabilities

After application of IFRS 16, the balance sheet values are as follows:

(in thousands of EUR)	**Jun. 30, 2019**	**Jan. 1, 2019**
Right-of-use assets		
Company cars	1,487	1,057
Office and buildings rents	33,185	35,070
Total right-of-use assets	**34,672**	**36,127**
Lease liabilities	**36,249**	**37,051**

Taking into account the minimum rental periods and contractual extension options, lease terms of between 36 and 120 months from January 1, 2019 were considered. In 6M 2019, a depreciation amounting to EUR 379 thousand for company cars and EUR 2,743 thousand for office and building rents is recognized in operating income.

In addition, an expense of EUR 566 thousand for current and low-value leases is recognized in the operating result. Besides, variable lease payments in the amount of EUR 1,241 thousand were not included in the measurement of the lease liability and were also recognized in the operating result. In the cash flow statement, the cash outflows resulting from these items are included in the cash flow from operating activities.

A weighted average interest rate of 3.2% was applied for the valuation of lease liability. The interest expense of EUR 588 thousand is included in the financial result.

The lease liabilities are classified by maturity as follows:

(in thousands of EUR)	Jun. 30, 2019	Jan. 1, 2019
Up to one year	5,347	5,366
One to five years	24,158	24,611
More than five years	6,744	7,074
	36,249	**37,051**

Upon initial recognition, the lease liabilities were adjusted for the lease payments made in advance and deferred in the consolidated balance sheet as of December 31, 2018.

(12) Property, plant and equipment

Property, plant and equipment can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2019	Dec. 31, 2018
Land and buildings	7,373	6,196
Technical equipment and machinery	19,721	19,616
Factory and office equipment	2,793	2,557
Assets under construction	326	683
	30,213	**29,052**

In 6M 2019 and 6M 2018, there were neither impairments nor write-backs of property, plant and equipment impaired in prior years.

In 6M 2019, the group has not received any cash payments for government grants related to purchases (6M 2018: none). Based on grant notifications no historical costs have been deducted in 6M 2019 (6M 2018: none).

(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, 2019	Dec. 31, 2018
Capitalized development projects	94,702	87,926
Intangible assets acquired in business combinations	23,343	26,012
Other intangible assets	4,229	5,512
	122,274	**119,450**

In 6M 2019, borrowing costs of EUR 188 thousand (6M 2018: EUR 211 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, 2019	Dec. 31, 2018
Purchased technology FiSEC	266	412
Purchased hardware and software technology Overture	2,804	3,679
Purchased technology MRV	6,353	7,084
Brand Ensemble	64	86
Purchased customer relationships OSA	-	17
Purchased customer relationships Overture	3,103	3,422
Purchased customer relationships MRV	10,753	11,312
	23,343	**26,012**

Amortization of intangible assets with a finite useful life comprises:

(in thousands of EUR)	Q2 2019	Q2 2018	6M 2019	6M 2018
Capitalized development projects	8,570	7,245	15,781	13,921
Intangible assets acquired in business combinations	1,408	1,373	2,824	2,720
Other intangible assets	825	809	1,675	1,524
	10,803	**9,427**	**20,280**	**18,165**

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

(in thousands of EUR)	Q2 2019	Q2 2018	6M 2019	6M 2018
Purchased technology FiSEC	72	72	145	145
Purchased hardware and software technology Overture	438	438	875	875
Purchased technology MRV	394	371	784	728
Brand Ensemble	10	10	21	21
Purchased customer relationships OSA	-	17	18	34
Purchased customer relationships Overture	174	163	344	321
Purchased customer relationships MRV	320	302	637	596
	1,408	**1,373**	**2,824**	**2,720**

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 2019 and 6M 2018 no impairment of intangible assets with finite useful economic lives was recognized.

(14) Financial liabilities

In September 2018, ADVA SE contracted a syndicated loan amounting to EUR 75,000 thousand with a banking syndicate. The syndicated loan consists of two tranches with a total maturity of five years including a redeemable loan amounting to EUR 65,000 thousand as well as a revolving credit line of EUR 10,000 thousand. The initial interest rate for the redeemable loan amounted to EURIBOR plus 1.5%, linked to the performance of the group. Based on the current performance the interest rate will be adjusted effective from Q3 2019 to EURIBOR plus 1.4%. A respective fair value adjustment of the book value amounting to EUR 199 thousand has been recognized in 6M 2019. The first bi-annual instalment of EUR 3,000 thousand has been repaid in June 2019.

On June 30, 2019, the net book value of EUR 80,143 thousand equals the fair value of the total loans amount. For all other financial liabilities included in the balance sheet at June 30, 2019, the fair value also 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, 2018.

Further information on lease liabilities is provided in note (11).

(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, 2019 can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2019	Dec. 31, 2018
Non-financial liabilities		
Liabilities to employees for vacation	6,504	3,362
Liabilities due to withheld wage income tax and social security contribution	2,867	2,493
Liabilities due to tax authorities	1,979	1,985
Obligations from subsidized research projects	2,847	2,128
Other	-	271
Total current non-financial liabilities	**14,197**	**10,239**
Financial liabilities		
Positive fair values of derivative financial instruments	12	-
Liabilities to employees for variable compensation and payroll	3,890	16,125
Other	4,121	1,973
Total current financial liabilities	**8,023**	**18,098**
	22,220	**28,337**

On June 30, other non-current liabilities include:

(in thousands of EUR)	Jun. 30, 2019	Dec. 31, 2018
Non-financial liabilities		
Obligations from subsidized research projects	744	571
Other	17	1,323
Total non-current non-financial liabilities	**761**	**1,894**
Financial liabilities		
Other	327	62
Total non-current financial liabilities	**327**	**62**
	1,088	**1,956**

On December 31, 2018, other non-current non-financial liabilities primarily included deferred rental expense of EUR 1,303 thousand.

The measurement of the assets and liabilities at fair value through profit or loss is based on fair values of Level 2 and Level 3.

Forward rate agreements are measured using quoted forward exchange rates and yield curves derived from quoted interest rates according to the maturities of the contract.

(16) Other provisions

(in thousands of EUR)	Jun. 30, 2019	Dec. 31, 2018
Current provisions		
Warranty provision	1,919	2,122
Personnel provisions	8,429	885
Consulting fees	3,014	3,551
Supplier obligations	7,915	7,959
Other short-term provisions	694	488
	21,971	**15,005**
Non-current provisions		
Warranty provision	1,355	1,425
Other long-term provisions	28	28
	1,383	**1,453**
	23,354	**16,458**

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.

(17) Contract liabilities and refund liabilities

Contract and refund liabilities on June 30, 2019 can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2019	Dec. 31, 2018
Current contract liabilities		
Advance payments received	243	87
Current contract liabilities related to customer loyalty programs	328	460
Current deferred revenues related to service level agreements	16,491	13,514
	17,062	**14,061**
Current refund liabilities	**1,114**	**511**
Non-current contract liabilities		
Non-current deferred revenues related to service level agreements	6,352	6,469
	6,352	**6,469**
	24,528	**21,041**

Current contract liabilities related to customer loyalty programs include mainly expected volume discounts and refunds to customers

The revenues generated in the reporting period from contract liabilities existing at the beginning of the period amounted to EUR 11,059 thousand (December 31, 2018: EUR 11,846 thousand).

Management expects that 73% of the outstanding (or partially outstanding) benefit obligations as of December 31, 2018, will be recognized as revenue in the 2019 financial year. The remaining 27% are expected to be recognized as sales in 2020 mainly.

The contract liabilities do not include variable compensation components which are limited.

(18) Stockholders' equity

On June 30, 2019, the share capital amounts to EUR 49,963 thousand (on December 31, 2018: EUR 49,931 thousand).

In connection with the exercise of stock options, 32,000 shares were issued to employees and management board of the company and its group companies out of conditional capital in 6M 2019. The par value of EUR 32 thousand was appropriated to the share capital, whereas the premium of EUR 124 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 2019 and 6M 2018, revenues included EUR 35,822 thousand and EUR 31,415 thousand for services, respectively. The remaining revenues relate mainly to product sales.

In 6M 2019, revenues related to service level agreements amounting to EUR 10,907 thousand (6M 2018: EUR 11,598 thousand) and revenues related to customer loyalty programs amounting to EUR 93 thousand (6M 2018: EUR 89 thousand) have been recognized. These were included in contract liabilities at the beginning of the period.

In 6M 2019, revenues amounted to EUR 231,992 thousand relate to performance obligations that were performed at a specific point in time, and revenues of EUR 29,383 thousand relate to performance obligations that were delivered over a period of time (6M 2018: EUR 217,221 thousand and EUR 27,069 thousand).

A summary of revenues by geographic region is provided in the section on segment reporting under note (26).

(20) Other operating income and expenses

(in thousands of EUR)	Q2 2019	Q2 2018	6M 2019	6M 2018
Other operating income				
Government grants received	520	605	909	993
Income for the supply of development services	-	28	-	192
Release of bad debt allowances	-	64	18	99
Release of provisions	1,002	3,286	1,133	3,666
Other	324	300	1,124	1,472
	1,846	**4,283**	**3,184**	**6,422**
Other operating expenses				
Impairment of trade accounts receivable	-5	-6	-11	-12
Other	-23	-177	-119	-224
	-28	**-183**	**-130**	**-236**
Other operating income and expenses, net	**1,818**	**4,100**	**3,054**	**6,186**

(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. In addition, an income of EUR 199 thousand from the adjustment of the interest rate margin for an existing syndicated loan is included.

Interest expenses are primarily incurred on financial liabilities and on the sale of receivables.

(22) Currency translation gains and losses, net

Currency translation gains and losses, net, analyze as follows:

(in thousands of EUR)	**Q2 2019**	**Q2 2018**	**6M 2019**	**6M 2018**
Foreign currency exchange gains	922	6,699	2,509	8,348
thereof: gains from forward rate agreements	*252*	*404*	*319*	*416*
Foreign currency exchange losses	-966	-5,247	-1,769	-8,970
thereof: losses from forward rate agreements	*-21*	*-4*	*-243*	*-271*
	-44	**1,272**	**740**	**-622**

(23) Income taxes

The tax expenses in 6M 2019 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 2019, no restructuring expenses have been recognized. In 6M 2018, restructuring expenses including severance payments as well as related legal costs amounting to EUR 1,299 thousand have been recognized. The allocation to functional areas in the consolidated income statement is included in note (26).

(25) Consolidated cash flow statement

The consolidated cash flow statement has been prepared in accordance with IAS 7.

Cash and cash equivalents include short-term cash and short-term financial assets whose original remaining maturity does not exceed three months. Bank overdrafts are reported in financial liabilities.

Cash flows from investing and financing activities are determined directly, whereas the cash flow from operating activities is derived indirectly from the consolidated income before tax. When cash flow from operating activities is calculated, the changes in assets and liabilities are adjusted for the effects of currency translation. As a result, it is not possible to reconcile the figures to the differences in the published consolidated statement of financial position.

Besides cashflows from financing activities the increase of financial debt from EUR 89,484 thousand to EUR 116,392 thousand mainly relates to the recognition of lease liabilities due to the first-time adoption of IFRS 16. Non-cash effects from the effective interest method amount to negative EUR 91 thousand.

In the consolidated cash flow statement in 6M 2019, payments from IFRS 16 Leases for the repayment of lease liabilities amounting to EUR 1,973 thousand and for the interest portion of lease liabilities amounting to EUR 588 thousand are reported as cashflow from financing activities, which would have been reported as cashflow from operating activities under the previous accounting treatment in accordance with IAS 17.

Cash and cash equivalents to which the group only has restricted access are explained in note (6).

(26) 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, i.e. the management board, and regularly reviewed to make decisions about resources to be assigned to the segment and assess its performance. The internal organizational and management structure and the structure of internal financial reporting activities are the key factors in determining what information is reported. For making decisions about resource allocation and performance assessment, management does not monitor the operating results separately on the level of business units.

Within the ADVA group, management decisions are based on pro forma operating income. 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, 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, 2019 is analyzed as follows:

(in thousands of EUR)	Pro forma financial information	Intangible assets from acquisitions	Goodwill	Compensation expenses	Restruc-turing	Disclosure of R&D expenses	Consolidated financial information
Revenues	261,376	-	-	-	-	-	261,376
Cost of goods sold	-169,731	-1,804	-	-43	-	-	-171,578
Gross profit	**91,645**	**-1,804**	**-**	**-43**	**-**	**-**	**89,798**
Gross margin	**35.1%**						**34.4%**
Selling and marketing expenses	-33,996	-1,020	-	-326	-	-	-35,342
General and administrative expenses	-17,278	-	-	-183	-	-	-17,461
Research and development expenses	-58,897	-	-	-344	-	22,557	-36,684
Income from capitalization of development expenses	22,557	-	-	-	-	-22,557	-
Other operating income	3,184	-	-	-	-	-	3,184
Other operating expenses	-130	-	-	-	-	-	-130
Operating income	**7,085**	**-2,824**	**-**	**-896**	**-**	**-**	**3,365**
Operating margin	**2.7%**						**1.3%**
Segment assets	**424,882**	**23,343**	**70,820**	**-**	**-**	**-**	**519,045**

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**	**Restruc-turing**	**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**

Additional information by geographical regions:

(in thousands of EUR)	Q2 2019	Q2 2018	6M 2019	6M 2018
Revenues				
Germany	24,039	26,727	46,900	56,667
Rest of Europe, Middle East and Africa	47,286	30,451	92,755	65,171
Americas	52,088	51,879	100,373	93,176
Asia-Pacific	9,803	14,695	21,348	29,276
	133,216	**123,752**	**261,376**	**244,290**

(in thousands of EUR)	Jun. 30, 2019	Dec. 31, 2018
Non-current assets		
Germany	125,411	114,393
Rest of Europe, Middle East and Africa	29,379	15,642
Americas	96,416	86,586
Asia-Pacific	6,773	2,281
	257,979	**218,902**

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

In 6M 2019, two major customers exceeded 10% of total revenues (6M 2018: no major customer). In 6M 2019, the share of revenues allocated to major end customers was EUR 63,984 thousand (6M 2018: nil).

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.

(27) Other financial obligations and financial commitments

On June 30, 2019, the group had purchase commitments totaling EUR 50,040 thousand in respect to suppliers (December 31, 2018: EUR 38,851 thousand).

Group entities have issued guarantees in favor of customers. On June 30, 2019, performance bonds with a maximum guaranteed amount of EUR 3,113 thousand were issued (December 31, 2018: EUR 3,066 thousand). At the end of 6M 2019, ADVA does not expect claims from these guarantees.

(28) 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, 2019, ADVA 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.

(29) Stock option programs

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

	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, 2018	**2,069,418**	**991,667**	**40,200**
Granted options	425,000	175,000	-
Exercised options	-195,406	-	-38,200
Forfeited options	-110,700	-	-
Expired options	-23,100	-	-2,000
Options outstanding at Dec. 31, 2018	**2,165,212**	**1,166,667**	**-**
Granted options	28,500	-	-
Exercised options	-32,000	-	-
Forfeited options	-48,200	-	-
Options outstanding at Jun. 30, 2019	**2,113,512**	**1,166,667**	**-**
Of which exercisable	300,412	440,000	-

(30) 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 on June 30, 2019, in the sense of IAS 24.

Teleios Capital Partners LLC is an investment company based in Zug, Switzerland. On June 30, 2019, Teleios Capital Partners LLC held a 20.25% share in the equity of ADVA. No business relations existed with Teleios Capital Partners LLC.

On June 30, 2019, the EGORA group held a 14.99% share in the equity of ADVA.

ADVA Optical Networking SE holds 7.1% 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 2019, ADVA acquired components with an amount of EUR 6 thousand from the EGORA group (6M 2018: EUR 3 thousand). In 6M 2019 and 6M 2018, ADVA did not sell any products to the EGORA group.

ADVA has entered into several agreements with the EGORA group under which ADVA is entitled to make use of certain facilities and services of the EGORA group. In 6M 2019 and 6M 2018, these agreements were not utilized.

On June 30, 2019, trade accounts payable amounting to EUR 1 thousand existed in respect to EGORA group (December 31, 2018: nil).

In 6M 2019 and 6M 2018, Saguna Networks Ltd. has not performed development services for the group.

In 6M 2019, ADVA did not acquire any components from Arista Networks, Inc. (6M 2018: EUR 42 thousand). On June 30, 2019, no trade accounts payable and provisions existed in respect to Arista Networks, Inc. (December 31, 2018: nil).

ADVA entered a service agreement with Fraunhofer Heinrich Hertz Institute. In 6M 2019, ADVA did not acquire any services (6M 2018: EUR 75 thousand). On June 30, 2019, no trade accounts payable existed in respect to Fraunhofer Heinrich Hertz Institute (December 31, 2018: nil).

In 6M 2019, Harmonic Inc. did not acquire any products from ADVA (6M 2018: EUR 1 thousand). On June 30, 2019, no trade accounts receivables existed in respect to Harmonic Inc. (December 31, 2018: nil).

On June 30, 2019 and December 31, 2018 no provision existed in respect to any related party.

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

See note (31) for detailed information about transactions with the management board and the supervisory board.

(31) 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, 2019	**Dec. 31, 2018**	**Jun. 30, 2019**	**Dec. 31, 2018**
Brian Protiva Chief executive officer	401,030	401,030	335,000	335,000
Christoph Glingener Chief technology officer & chief operating officer	-	-	325,000	325,000
Ulrich Dopfer Chief financial officer	500	500	256,667	256,667
Scott St. John Chief marketing & sales officer	-	-	250,000	250,000

The options to members of the management board were granted out of Plan XIVa. 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.

The strike price for these option rights is

- EUR 5.05 for 100,000 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, 2019, no shares or stock options were held by members of the supervisory board (December 31, 2018: none).

On June 30, 2019, trade accounts payable to the supervisory board for the pro rata compensation for Q2 2019 with an amount of EUR 52 thousand were recognized (December 31, 2018: EUR 59 thousand). The pay-out of these payables was carried out in July 2019.

(32) 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, 2019, 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 23, 2019

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 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 23, 2019

Brian Protiva   Christoph Glingener

Ulrich Dopfer   Scott St. John

FINANCIAL CALENDAR

Jefferies Semiconductor, Hardware & Communications Infrastructure Summit	August 27 to 28, 2019 Chicago, USA
Commerzbank Sector Conference	August 29, 2019 Frankfurt, Germany
8th Annual Gateway Conference	September 4 to 5, 2019 San Francisco, USA
dbAccess European TMT Conference	September 5 to 6, 2019 London, Great Britain
Berenberg / Goldman Sachs 8th German Corporate Conference	September 23, 2019 Munich, Germany
Publication of quarterly statement 9M 2019	October 24, 2019 Martinsried/Munich, Germany

FORWARD-LOOKING STATEMENTS

This document 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’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 2018.

GLOSSARY

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, non-recurring expenses related to restructuring measures are not included.

Net debt is calculated by subtracting cash and cash equivalents from total **financial debt** comprising of current and non-current financial liabilities and current and non-current lease liabilities.

Net Working capital is defined as trade accounts receivable plus inventories minus trade accounts payable**.**

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.

The **leverage** shows the liabilities to banks in relation to the EBITDA of the last 12 months. EBITDA is calculated as if the accounting approach had been unchanged, i.e. without taking IFRS 16 into account. The leverage is thus determined explicitly without taking into account the accounting effects in accordance with IFRS 16.

The **return on capital employed** (ROCE) is the operating result for the current period divided by the capital employed. The **capital employed** is the difference between the average balance sheet total and the average current liabilities of the period, calculated as the arithmetic average of the quarterly balance sheet date values.

IMPRESSUM

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

ADVA on the web

More information about ADVA, 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