ADVA™

Open edge networking

Six-month report

2020

LETTER TO THE SHAREHOLDERS

Dear shareholders and business associates,

The quarter just ended was dominated by the global Covid-19 pandemic. There are currently more than 13 million confirmed cases of infection and experts anticipate a further increase. The medium and long-term effects on the global economy are still not foreseeable. Nevertheless, there has been a change in sentiment in the financial markets in the past few weeks. In Germany, the DAX recovered 23.9% in Q2, the best quarter since 2003. Nasdaq valuations reached new all-time highs and the composite index passed the 10,000 mark for the first time. However, this V-shaped recovery on the financial markets does not reflect the development of the real economy. In investor circles, the past few months are already referred to as the period of great disconnection.

Of course, not all industries and countries are equally affected by the global pandemic. What's more, national and international aid programs are trying to stabilize shaky economies to keep the damage as low as possible. The crisis has also left its mark on telecommunications equipment suppliers. There can be no question that our industry has gained in terms of recognition and importance. Our technologies and services are vital to some of the world's most critical network infrastructures and have played an integral role in helping our global society to move forward during this time of crisis. From emergency communications to remote working to e-learning and beyond, our technology is a key enabler.

Global supply chains are stabilizing

At the beginning of the Covid-19 crisis, we were one of the first companies to point out that Wuhan, China, is a center for optoelectronic components and that supply bottlenecks were to be expected due to curfews and plant closings. Since then, the situation has mostly normalized, both in Wuhan and in the rest of China. However, other regions of the world are still struggling with the effects of the pandemic. Every state-ordered lockdown and border closure in countries and regions that are part of our supply chain can cause bottlenecks in the procurement of components, production, transportation and general logistics. Nevertheless, in the past weeks and months we have impressively demonstrated the flexibility and agility in our supply chain. In addition, we took early measures to ensure business continuity in our global development and distribution centers, even under difficult conditions. The safety and health of our employees, partners and customers have always been our top priority. Around 80% of our employees currently work from their home office. Only activities that require hands-on interaction with our technology, such as system testing and production, take place in our facilities.

Development of demand

In addition to the ongoing challenges in our supply chain, there are also risks in the development of customer demand. During the first six months of the current fiscal year, we were able to report very good order entry from the communications service providers (CSPs) and the internet content providers. Home office, the increased use of e-learning, video conferencing and streaming services increase the consumption of digital content, and both providers of cloud services and CSPs confirm a significantly higher network utilization. However, with CSPs in particular, it is questionable whether the increased demand for bandwidth will also lead to higher revenues and higher capex budgets. If the CSPs do not increase their planned investment volumes, we will likely experience a slowdown in demand from this customer group in the second half of the year. We are also closely monitoring the development of our business with large enterprise customers. In the event of a long-lasting recession, which also affects the Fortune 500 companies, the expansion of these companies' IT infrastructure may slow down.

Financial security and stability

After reporting financial losses in the first quarter, our earnings in the second quarter were very positive. Similar to Q1, where we were not able to fill all orders due to the Covid-19 pandemic, we also were not able to recognize the full revenue potential in Q2. However, sales and profitability increased substantially when compared to the previous quarter and the year-ago quarter. The relatively strong revenue contribution from large network operators with comparatively lower margins continued. On the other hand, our cost improvement measures introduced last year made a positive impact and led to substantially higher profitability compared to Q1. We were also able to significantly increase our liquidity, both sequentially and compared to the year-ago quarter. These results further reduced our net debt. Furthermore, we greatly improved our financial headroom by concluding a KfW backup line that could be used in the event of a Covid-19-driven crisis scenario. This reserve line was integrated into the syndicated loan from September 2018 but will most likely not be utilized.

Outlook

The falling number of new corona infections in Europe and China, the rapid easing of national lockdowns and the surprisingly positive change in some economic indices have triggered a recovery in the financial markets. The recovery of the real economy will be much slower and will vary depending on the industry and region. Our industry and ADVA specifically has reason to be cautiously optimistic, but we are still concerned about the danger of a second wave of Covid-19 infections and the associated lockdown scenarios. On the other hand, the demand for our products and services has so far developed quite positively during the pandemic. Even if there is a possible slowdown in customer demand in the second half of the year, we do not expect a significant drop in our revenue levels, unless the slowdown lasts into the first quarter of next year. Furthermore, as indicated, our production and supply chains have become more complicated and the cost of transportation has increased. But our ability to produce and deliver product is stable and largely intact. We expect further relaxation and improvement here. Finally, we have comfortable financial leeway and our balance sheet is strong. Together with our global, well-diversified and loyal customer base, we are ready to expand and improve the digital infrastructure that our society is so increasingly dependent on.

Our industry is an essential pillar for maintaining communication and economic processes, both in times of crisis and in the recovery. We will contribute to overcoming this crisis and continue to invest all our energy and creativity in innovative solutions for the benefit of our customers, shareholders and employees.

July 21, 2020

Brian Protiva

Chief executive officer

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IFRS FINANCIAL HIGHLIGHTS 6M 2020

Income statement

(in thousands of EUR, except earnings per share and ratios)	Q2 2020	Q2 2019	Change	6M 2020	6M 2019	Change
Revenues	145,024	133,216	9%	277,710	261,376	6%
Pro forma operating income *)	10,107	4,337	133%	8,436	7,085	19%
Pro forma operating margin in %	7.0%	3.3%	3.7pp	3.0%	2.7%	0.3pp
Operating income	8,658	2,497	247%	4,620	3,365	37%
Operating margin in %	6.0%	1.9%	4.1pp	1,7%	1,3%	0,4pp
Net income	7,629	1,297	488%	394	2,333	-83%
Diluted earnings per share in EUR	0.15	0.03	400%	0.01	0.05	-80%

Cash flow statement

(in thousands of EUR)	Q2 2020	Q2 2019	Change	6M 2020	6M 2019	Change
Cash flow from operating activities	37,796	21,998	72%	49,116	28,330	73%
Cash flow from investing activities	-14,442	-15,050	-4%	-31,941	-30,153	6%

Balance sheet and financial ratios

(in thousands of EUR)	Jun. 30, 2020	Dec. 31, 2019	Change
Liabilities to banks	81,843	80,979	1%
Leverage per year *)	1.1	1.2	-8%
Lease liabilities according to IFRS	30,671	34,430	-11%
Financial debt	112,514	115,409	-3%
Cash and cash equivalents	67,586	54,263	25%
Net debt *)	44,928	61,146	-27%
Net working capital *)	127,917	128,150	0%
Equity	253,221	255,792	-1%
Equity ratio in %	48.0%	47.7%	0.3pp
Capital Employed *)	375,360	366,462	2%
ROCE in % *)	2.5%	3.3%,	-0.8pp

Employees

(at period end)	Jun. 30, 2020	Dec. 31, 2019	Change
	1,879	1,903	-1%

*) Key performance indicators and other ratios are defined in the glossary at the end of this document.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

Business development and operational performance

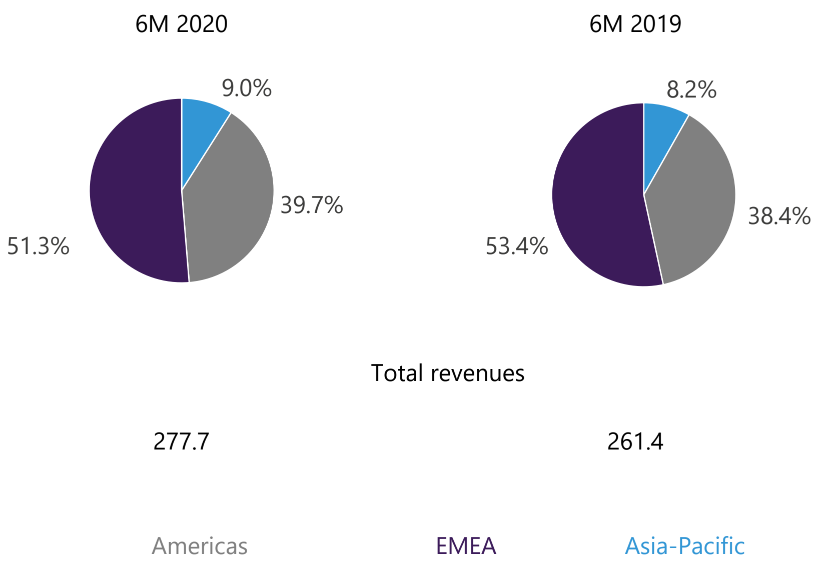
Revenues

Revenues represent one of the four key performance indicators for ADVA. The group's revenues in 6M 2020 amounted to EUR 277.7 million and were EUR 16.3 million or 6.2% above revenues of EUR 261.4 million in 6M 2019. Compared to revenues of EUR 132.7 million in Q1 2020, revenues in Q2 2020 increased by 9.3% to EUR 145.0 million. The increase in revenues is driven by continued strong demand from major communication service providers (CSPs) and the internet content providers (ICPs).

In 6M 2020, EMEA (Europe, Middle East and Africa) was once again the most important sales region, followed by the Americas and Asia-Pacific. Year-on-year, sales in EMEA increased to EUR 142.5 million in 6M 2020 compared to EUR 139.7 million in 6M 2019. ADVA is traditionally very strong in Europe with a very good network of partners and achieves good results due to a broad and loyal customer base. Revenues in the Americas increased by 9.8% from EUR 100.4 million in 6M 2019 to EUR 110.2 million in 6M 2020. Similar to EMEA, business with CSPs and ICPs developed well. In the Asia-Pacific region, sales also improved in 6M 2020 and grew to EUR 25.1 million from EUR 21.3 million in 6M 2019. The region is typically predominated by project-based business, leading to greater fluctuations in individual quarters. Here too the contribution of CSPs was relatively high in the past quarter.

Revenues by region

(in millions of EUR and relative to total revenues)



Results of operations

(in millions of EUR, except earnings per share)	6M 2020	Portion of revenues	6M 2019	Portion of revenues
Revenues	**277.7**	**100.0%**	**261.4**	**100.0%**
Cost of goods sold	-186.6	67.2%	-171.6	65.6%
Gross profit	**91.1**	**32.8%**	**89.8**	**34.4%**
Selling and marketing expenses	-32.2	11.6%	-35.3	13.5%
General and administrative expenses	-17.0	6.1%	-17.5	6.7%
Research and development expenses	-37.7	13.5%	-36.7	14.1%
Other operating income and expenses, net	0.4	0.1%	3.1	1.2%
Operating income	**4.6**	**1.7%**	**3.4**	**1.3%**
Interest income and expenses, net	-1.1	0.4%	-1.1	0.4%
Financial gains and losses, net	-0.6	0.2%	0.7	0.3%
Income before tax	**2.9**	**1.1%**	**3.0**	**1.2%**
Income tax benefit (expense), net	-2.5	0.9%	-0.7	0.3%
Net income	**0.4**	**0.2%**	**2.3**	**0.9%**
Earnings per share in EUR				
basic	0.01		0.05	
diluted	0.01		0.05	

Cost of goods sold increased by EUR 15.0 million to EUR 186.6 million in 6M 2020 mainly due to the increase in revenues. In 6M 2020, cost of goods sold included EUR 18.3 million (6M 2019: EUR 15.8 million) of amortization of capitalized development projects.

Gross profit improved from EUR 89.8 million in 6M 2019 to EUR 91.1 million in 6M 2020, while gross margins declined to 32.8% in 6M 2020 after 34.4% in 6M 2019. The decline in the gross margin in 6M 2020 compared to 6M 2019 results from a change in the customer and product mix.

ADVA's operating income increased by EUR 1.2 million to a positive EUR 4.6 million in 6M 2020, mainly driven by an increase in gross profit with operating costs remaining on similar levels as in 6M 2019. Operating costs amount to EUR 86.5 million or 31.1% of revenues in the current period after EUR 86.4 million or 33.1% of revenues in 6M 2019.

Within operating costs, selling and marketing expenses in 6M 2020 of EUR 32.2 million were below the prior-year number of EUR 35.3 million. They amounted to 11.6% or 13.5% of revenues.

General and administrative expenses of EUR 17.0 million in 6M 2020 slightly decreased from EUR 17.5 million in 6M 2019 and amounted to 6.1% and 6.7% of revenues, respectively.

At EUR 37.7 million in 6M 2020, R&D expenses were slightly down compared to EUR 36.7 million seen in 6M 2019, comprising 13.5% and 14.1% of revenues, respectively. While gross R&D expenses slightly increased to EUR 59.5 million in 6M 2020 compared to EUR 59.2 million reported in 6M 2019 income from capitalization of development expenses decreased from EUR 22.6 million in 6M 2019 to EUR 21.8 million in 6M 2020. The capitalization rate in 6M 2020 amounted to 36.7%, down from 38.1% reported in 6M 2019.

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 2020, ADVA reported a pro forma operating income of EUR 8.4 million after EUR 7.1 million in 6M 2019, representing 3.0% and 2.7% of revenues, respectively.

Beyond the operating result net income incorporates net interest expenses of EUR 1.1 million (6M 2019: EUR 1.1 million), in which interest effects from lease accounting according to IFRS 16 of EUR 0.5 million (6M 2019: EUR 0.6 million) are included. Furthermore, net financial losses of EUR 0.6 million (6M 2019: net financial gains of EUR 0.7 million) relating to the revaluation of foreign currency assets and liabilities and the result on hedging instruments, impacted the net income in 6M 2020.

In 6M 2020, the group reported an income tax expense of EUR 2.5 million after an income tax expense of EUR 0.7 million in 6M 2019. 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 2020, ADVA reported increased revenues while gross margin at the same time declined. Despite the positive development of the operating result in 6M 2020, which results in particular from an increase in gross profit with stable operating expenses, ADVA shows a lower net income of EUR 0.4 million in the current period after a net income of EUR 2.3 million in 6M 2019. This decline is mainly due to the financials losses as well as higher tax expenses 6M 2020.

Net assets and financial position

Balance sheet structure

ADVA's total assets slightly decreased by EUR 8.4 million from EUR 536.4 million at the end of 2019 to EUR 528.0 million at the end of June 2020.

At EUR 264.5 million at the end of 6M 2020, current assets were EUR 4.7 million lower than the corresponding figure of EUR 269.2 million at the end of 2019, accounting for 50.1% and 50.2% of the balance sheet total, respectively, at these reporting dates. The decrease in current assets was mainly driven by the decrease in inventories by EUR 12.7 million to EUR 92.7 million with inventory turns largely unchanged at 3.9x in 6M 2020 compared to 4.0x in 12M 2019. Moreover, trade receivables decreased from EUR 96.2 million at December 31, 2019 to EUR 92.7 million at the end of 6M 2020, with average days sales outstanding decreased from 66 days in 12M 2019 to 61 days in 6M 2020. Other current assets decreased by EUR 2.0 million. These effects were partly offset by a strong increase in cash and cash equivalents from EUR 54.3 million at prior year-end to EUR 67.6 million at the end of June 2020.

Non-current assets decreased to EUR 263.5 million at the end of 6M 2020 from EUR 267.1 million at year-end 2019. The decrease mainly relates to lower right-of-use assets which decreased by EUR 3.7 million.

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. The development of the Net Promoter Score is presented in the "ADVA Overview" section of the 2019 annual report.

On the equity and liabilities side, current liabilities slightly decreased by EUR 2.6 million from EUR 159.1 million on December 31, 2019 to EUR 156.5 million on June 30, 2020. At EUR 57.5 million, trade payables were significantly below the EUR 73.4 million reported at the end of December 2019. In 6M 2020, days payables outstanding were at 57 days compared to 63 days in 12M 2019. The decrease in trade payables was mainly due to the termination of material purchases. Other current liabilities decreased by EUR 11.4 million in particular due to the payment of variable compensation components for 2019 in 6M 2020. At the same time, current provisions increased by EUR 11.0 million in the current period, as employees' variable compensation entitlement for 2020 has been included on a pro rata basis. Moreover, current liabilities to banks increased by EUR 8.1 million mainly due to the use of an existing credit line. Current contract liabilities amounted to EUR 18.6 million at June 30, 2020, compared to EUR 12.4 million at year-end 2019.

At EUR 118.2 million at the end of 6M 2020, non-current liabilities also declined from the EUR 121.4 million reported at the end of 2019. Non-current lease liabilities amounted to EUR 24.8 million at the end of 6M 2020 compared to EUR 28.3 million reported at year-end 2019. Non-current liabilities to banks fell by EUR 7.2 million due to scheduled repayments. At the same time, non-current contract liabilities increased substantially to EUR 11.6 million, compared with EUR 7.1 million as of December 31, 2019. Deferred tax liabilities increased by EUR 2.2 million.

Stockholders' equity slightly decreased from EUR 255.8 million reported on December 31, 2019, to EUR 253.2 million on June 30, 2020. This decrease is mainly due to currency translation effects recognized in equity. The equity ratio was at 48.0% on June 30, 2020, after 47.7% on December 31, 2019, while the non-current assets ratio amounted to 96.1% and 95.8%, respectively with stockholders' equity largely covering the non-current assets.

Capital expenditures

Capital expenditures for additions to property, plant and equipment in 6M 2020 amounted to EUR 5.9 million, below the EUR 7.5 million seen in 6M 2019.

Capital expenditures for intangible assets of EUR 26.1 million in 6M 2020 were up from EUR 22.7 million in 6M 2019. This total mainly consists of capitalized development projects of EUR 21.8 million in 6M 2020 after EUR 22.5 million in 6M 2019 and capital expenditures for other intangible assets of EUR 4.3 million in 6M 2020 after EUR 0.2 million in 6M 2019.

Cash flow

(in millions of EUR)	6M 2020	Portion of cash	6M 2019	Portion of cash
Operating cash flow	49.1	72.7%	28.3	58.7%
Investing cash flow	-31.9	47.3%	-30.1	62.5%
Financing cash flow	-3.9	5.7%	-12.5	25.8%
Net effect of foreign currency translation on cash and cash equivalents	0.0	0.0%	-0.1	0.2%
Net change in cash and cash equivalents	**13.3**	**19.7%**	**-14.4**	**29.8%**
Cash and cash equivalents at the beginning of the period	54.3	80.3%	62.7	129.8%
Cash and cash equivalents at the end of the period	**67.6**	**100.0%**	**48.3**	**100.0%**

Cash flow from operating activities was positive EUR 49.1 million in 6M 2020, after positive EUR 28.3 million in 6M 2019, and mainly relates to non-cash depreciation charges as well as cash inflows from changes in working capital. In 6M 2019, the cash flow from operating activities was largely impacted by non-cash depreciation charges.

Cash flow from investing activities amounted to negative EUR 31.9 million in 6M 2020 after negative EUR 30.1 million in 6M 2019. The increased use of funds for investing activities is largely due to higher investment in other intangible assets.

Finally, net cash outflows of EUR 3.9 million were reported from financing activities in 6M 2020, after cash outflows of EUR 12.5 million from financing activities in 6M 2019. The cash outflow in 6M 2020 resulted in particular from scheduled repayments and interest payments for existing liabilities to banks and liabilities from leasing that were partially offset by the utilization of an existing credit line of EUR 10.0 million. The significantly higher cash outflow in 6M 2019 was due to scheduled servicing of existing liabilities to banks with no offsetting cash inflows to be considered.

Overall, including the net effect of foreign currency translation of EUR 0.0 million in 6M 2020 (6M 2019: negative EUR 0.1 million), cash and cash equivalents significantly increased by EUR 13.3 million, from EUR 54.3 million at the end of December 2019 to EUR 67.6 million on June 30, 2020.

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.

Compared to December 31, 2019, total financial debt slightly decreased by EUR 2.9 million to EUR 112.5 million at the end of 6M 2020. In the case of liabilities to banks, increasing redemption payments in future periods led to a reclassification from non-current to current liabilities. Leasing liabilities fell by EUR 3.8 million, in particular due to the closure of individual locations in connection with restructuring measures.

On June 30, 2020, the group had fully used all committed borrowing facilities (undrawn committed borrowing facilities available on December 31, 2019: EUR 10.0 million).

Net debt represents one of the four key performance indicators for ADVA. Mainly due to the increase cash and cash equivalents explained in the previous paragraph ADVA's with a simultaneous slight decrease in financial debt, net debt fell significantly from EUR 61.1 million at the end of 2019 to EUR 44.9 million in 6M 2020. Cash and cash equivalents on June 30, 2020, and on December 31, 2019, were invested mainly in EUR, USD and GBP.

Return on capital employed in 6M 2020 was at positive 2.5%, up from positive 1.9% reported in 6M 2019. This development is mainly due to the increased operating result in 6M 2020.

Summary: Net assets and financial position

ADVA's net assets and financial position improved in 6M 2020, in particular due to increased cash and cash equivalents and a related reduction in net debt. Current liabilities are fully covered by cash and cash equivalents and outstanding trade receivables at the end of 6M 2020.

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, 2020, or the group's and the company's financial performance for 6M 2020. Similarly, there were no events considered material for disclosure.

Risk and opportunity 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.

With the global spread of the Covid-19 pandemic, the risk of sustaining the supply chain increased. There are three scenarios that can lead into an inability to supply: the possible closure of one of our production and / or distribution sites due to an occurring virus infection, a supply chain constraint with one or more of our contract manufacturers, or a governmental ordered lockdown within our important production sites. Furthermore, we see a new risk due to a recession driven decline in demand, as well as an increased risk of default.

All other risks and uncertainties remain unchanged and are explained in the "risk and opportunity report" section of the Group Management Report 2019.

OUTLOOK

The Covid-19 pandemic continues to significantly impact social life and economic processes in many countries around the world. The effects on individual economies are sometimes dramatic. In addition, it remains to be seen to what extent the government aid programs are effective and lead to sustainable improvements. On the other hand, the falling number of new infections in Europe and China, the rapid easing of some national lockdowns and the surprisingly positive change in important economic indices offer some optimism.

The telecommunications equipment industry has been less affected by the crisis than many other sectors. However, there are still significant risks in the production and supply chains at ADVA, as well as increased uncertainties in the further development of customer demand. For these reasons, the management board had already withdrawn the forecast for the fiscal year 2020 previously made on February 19 with the publication of the 3M financial statement 2020, published on April 23, 2020. Concerning the further course of the Covid-19 crisis, the following three scenarios were outlined in the three-month communication:

Scenario 1: The crisis is relatively short-lived. In major economies, the peak of the pandemic will be reached in April and there is a prospect of a rapid recovery in the remaining three quarters. In this scenario, it is still possible to achieve the goals communicated in February.

Scenario 2: The crisis does not end until June and the downturn will, therefore, be longer and steeper. There is no growth in the first half of the year, and in the second half of the year, reluctance to invest can be expected despite the slow return to normal. In this scenario, we expect little or no growth compared to 2019.

Scenario 3: The crisis continues until after the summer and triggers a global economic recession that lasts for several quarters. In this case, a drop in revenues can be expected and ADVA would have to adjust the company's cost structure.

From today's perspective, the crisis is not over, and the V-shaped recovery of the global economy described in scenario one has not occurred. However, due to the good order entry and agility in the supply chain, ADVA was able to show strong revenue growth in the first six months of the year. The measures taken last year to increase profitability are also having an effect, and the feared implications of the Covid-19 pandemic have so far been lower than expected. The management board believes that further growth in the third quarter is quite possible.

As already mentioned in the 3M statement, the company has strengthened its financial safety net and secured government loans that can readily be actioned. Additional cost optimization programs such as short-time work have not been used to date and are still available to the company. The company's balance sheet is solid and its financial flexibility stable.

Due to the high level of uncertainty about the further course of the Covid-19 crisis and its impact on ADVA's business, it is still difficult to make a reliable assessment of how revenues and profitability will develop in the second half of 2020. For this reason, the management board will not issue new guidance in this six-month report either. Originally, the company had forecast an increase in revenues to more than EUR 580 million for the full year 2020 with an increased pro forma operating profit of more than 5% of sales. In addition, the board expected an improvement in net debt in the single-digit percentage range and a net promoter score of at least 40%.

ADVA will continue to invest selectively in product development, technology and sales-increasing measures, and will continue to pursue consistent cost management. Since the duration and economic implications of the pandemic cannot be foreseen, the specific effects on revenues and earnings for the 2020 financial year cannot be reliably predicted. The group's main risks are explained in the "Risk and opportunities report" section of the 2019 annual report.

SIX-MONTH IFRS CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position of June 30, 2020 (unaudited)

(in thousands of EUR)	**Note**	**Jun. 30, 2020**	**Dec. 31, 2019**
Assets			
Current assets			
Cash and cash equivalents	(6)	67,586	54,263
Trade accounts receivable	(7)	92,744	96,193
Contract assets	(8)	563	654
Inventories	(9)	92,684	105,355
Tax assets		1,703	1,857
Other current assets	(10)	9,257	10,918
Total current assets		**264,537**	**269,240**
Non-current assets			
Right-of-use assets	(11)	28,246	31,985
Property, plant and equipment	(12)	31,163	32,622
Goodwill		71,309	72,023
Capitalized development projects	(12)	98,981	96,169
Intangible assets acquired in business combinations	(12)	18,363	20,864
Other intangible assets	(12)	6,508	3,704
Deferred tax asset		6,116	6,336
Other non-current assets	(10)	2,771	3,419
Total non-current assets		**263,457**	**267,122**
Total assets		**527,994**	**536,362**

(in thousands of EUR)	Note	Jun. 30, 2020	Dec. 31, 2019
Equity and liabilities			
Current liabilities			
Current lease liabilities	(13)	5,842	6,082
Current liabilities to banks	(14)	27,330	19,221
Trade accounts payable	(15)	57,511	73,398
Current provisions	(16)	25,420	14,379
Tax liabilities		930	1,686
Current contract liabilities	(17)	18,631	12,448
Refund liabilities	(17)	1,013	709
Other current liabilities	(15)	19,863	31,217
Total current liabilities		**156,540**	**159,140**
Non-current liabilities			
Non-current lease liabilities	(13)	24,829	28,348
Non-current liabilities to banks	(14)	54,513	61,758
Provisions for pensions and similar employee benefits	(16)	8,061	7,756
Other non-current provisions	(16)	1,593	1,380
Deferred tax liabilities		14,462	12,307
Non-current contract liabilities	(17)	11,614	7,070
Other non-current liabilities	(15)	3,161	2,811
Total non-current liabilities		**118,233**	**121,430**
Total liabilities		**274,773**	**280,570**
Stockholders' equity entitled to the owners of the parent company	(18)		
Share capital (Conditional capital EUR 5,012 thousand; prior year EUR 4,742 thousand)		50,188	50,182
Capital reserve		319,264	318,568
Accumulated deficit		-114,648	-121,693
Net income		394	7,045
Accumulated other comprehensive income		-1,977	1,690
Total stockholders' equity		**253,221**	**255,792**
Total equity and liabilities		**527,994**	**536,362**

Consolidated income statement
for the period from January 1 to June 30, 2020 (unaudited)

(in thousands of EUR, except earnings per share and number of shares)	Note	Q2 2020	Q2 2019	6M 2020	6M 2019
Revenues	(19)	**145,024**	**133,216**	**277,710**	**261,376**
Cost of goods sold		-95,458	-87,628	-186,620	-171,578
Gross profit		**49,566**	**45,588**	**91,090**	**89,798**
Selling and marketing expenses		-14,754	-18,069	-32,194	-35,342
Thereof net impairment results on financial assets		*195*	*72*	*1,094*	*-3*
General and administrative expenses		-8,423	-8,746	-17,044	-17,461
Research and development expenses		-18,157	-18,094	-37,646	-36,684
Other operating income	(20)	720	1,846	1,889	3,184
Other operating expenses	(20)	-294	-28	-1,475	-130
Operating income		**8,658**	**2,497**	**4,620**	**3,365**
Interest income	(21)	9	42	34	290
Interest expenses	(21)	-590	-713	-1,164	-1,376
Currency translation gains and losses, net	(22)	697	-44	-561	740
Income before tax		**8,774**	**1,782**	**2,929**	**3,019**
Income tax (expense) benefit, net	(23)	-1,145	-485	-2,535	-686
Net income entitled to the owners of the parent company		**7,629**	**1,297**	**394**	**2,333**
Earnings per share in EUR					
basic		0.15	0.03	0.01	0.05
diluted		0.15	0.03	0.01	0.05
Weighted average number of shares for calculation of earnings per share					
basic		50,183,219	49,938,521	50,182,592	49,948,973
diluted		50,303,093	50,535,324	50,302,466	50,545,776

Consolidated statement of comprehensive income (unaudited)

(in thousands of EUR)	Note	Q2 2020	Q2 2019	6M 2020	6M 2019
Net income entitled to the owners of the parent company		**7,629**	**1,297**	**394**	**2,333**
Items that possibly get reclassified to profit or loss in future periods					
Exchange differences on translation of foreign operations		-4,047	-2,697	-3,839	1,828
Items that do not get reclassified to profit or loss in future periods					
Remeasurement of defined benefit plans		172	-	172	-1,993
Total comprehensive income (loss) entitled to the owners of the parent company		**3,754**	**-1,400**	**-3,273**	**2,168**

Remeasurement of defined benefit plans is regularly done at year-end. In 6M 2020, a reassessment of the pension obligation in Israel considering the Covid-19 impact resulted in recognition of remeasurement effects.

In 6M 2020 and 6M 2019 no items were reclassified (recycled) from comprehensive income to profit or loss.

Consolidated cash flow statement (unaudited)

(in thousands of EUR)	Note	Q2 2020	Q2 2019	6M 2020	6M 2019
Cash flow from operating activities					
Income before tax		8,774	1,782	2,929	3,019
Adjustments to reconcile income before tax to net cash provided by operating activities					
Non-cash adjustments					
Amortization of non-current assets		16,355	15,660	32,738	29,741
Loss from disposal of property, plant and equipment and intangible assets		247	47	411	84
Stock compensation expenses		309	431	677	896
Other non-cash expenses		181	282	511	361
Foreign currency exchange differences		-2,074	-1,305	-2,003	-1,198
Changes in assets and liabilities					
Decrease (increase) in trade accounts receivable		-4,500	-385	3,540	-1,846
Decrease (increase) in inventories		-1,184	-3,559	12,671	-2,402
Decrease (increase) in other assets		2,926	313	2,275	-1,753
Increase (decrease) in trade accounts payable		12,059	8,419	-15,887	-2,810
Increase (decrease) in provisions		6,828	1,043	11,236	6,927
Increase (decrease) in other liabilities		-1,784	270	673	-1,681
Income tax paid		-341	-1,000	-655	-1,008
Net cash provided by operating activities		**37,796**	**21,998**	**49,116**	**28,330**
Cash flow from investing activities					
Investments in property, plant and equipment	(12)	-2,845	-3,987	-5,853	-7,504
Investments in intangible assets	(12)	-11,606	-11,104	-26,122	-22,739
Interest received		9	41	34	90
Net cash used for investing activities		**-14,442**	**-15,050**	**-31,941**	**-30,153**
Cash flow from financing activities					
Proceeds from capital increase and exercise of stock options	(18)	25	156	25	156
Decrease of lease liabilities	(13)	-1,716	-1,116	-3,494	-1,973
Payments received from liabilities to banks	(14)	-	-	10,000	-
Cash repayment of liabilities to banks	(14)	-6,125	-6,125	-9,250	-9,250
Interest paid		-647	-710	-1,161	-1,394
Net cash used in financing activities		**-8,463**	**-7,795**	**-3,880**	**-12,461**
Net effect of foreign currency translation on cash and cash equivalents		-58	-201	28	-93
Net change in cash and cash equivalents		**14,833**	**-1,048**	**13,323**	**-14,377**
Cash and cash equivalents at the beginning of the period		52,753	49,323	54,263	62,652
Cash and cash equivalents at the end of the period		**67,586**	**48,275**	**67,586**	**48,275**

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, 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**
Balance on January 1, 2020	**50,181,966**	**50,182**	**318,568**	**-114,648**	**1,690**	**255,792**
Capital increase, including exercise of stock options	6.000	6	19			25
Stock options outstanding			677			677
Net income				394		394
Exchange differences on translation of foreign operations					-3,839	-3,839
Remeasurement of defined benefit plans					172	172
Total comprehensive income				394	-3,667	-3,273
Balance on June 30, 2020	**50,187,966**	**50,188**	**319,264**	**-114,254**	**-1,977**	**253,221**

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, 2020, 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, 2019.

The condensed interim consolidated financial statements for the period ended June 30, 2020, 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 consolidated statement of financial position and in the consolidated 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, 2020, cannot be extrapolated to the result of the full year 2020.

(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 2020.

STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE FOR THE FIRST TIME IN 2020

In 6M 2020, following standards and interpretations have been adopted for the first time.

Standard	Topic	First-time adoption*	Expected impact on the financial position and performance
Amendments to the IFRS conceptual framework	Revised definitions of assets and liabilities and new guidelines on valuation and derecognition, presentation and disclosure	Jan. 1, 2020	none
Amendments to IFRS 3	Definition of business	Jan. 1, 2020	none
Amendments to IAS 1 and IAS 8	Definition of materiality	Jan. 1, 2020	none
Amendments to von IFRS 9, IAS 39 und IFRS 7	Reform of Interest rate benchmarks (IBOR-Reform)	Jan. 1, 2020	none
Amendments to IFRS 16	Leases – Covid-19-Related Rent Concessions	Jun. 1, 2020	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 2020 and previous years that are not applicable for the financial year 2020. 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
Amendments to IAS 16	Property, plant and equipment - revenue before intended use	Jan. 1, 2022	under review
Amendments to IAS 37	Onerous contracts - costs of contract performance	Jan. 1, 2022	under review
Amendments to IFRS 3	Reference to the IFRS framework	Jan. 1, 2022	under review
Yearly improvements 2018 - 2020	IFRS 1, IFRS 9, IFRS 16 and IAS 41	Jan. 1, 2022	under review
IFRS 17	Insurance contracts	Jan. 1, 2023	none
Amendments to IAS 1	Classification of liabilities as current or non-current	Jan. 1, 2023	under review

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

(4) Significant accounting judgments, estimates and assumptions

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

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

DEVELOPMENT EXPENSES

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

LEASES

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

TAXES

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

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

(5) Covid-19 effects

Against the background of the current crisis in connection with the global spreading of the corona virus, ADVA management has dealt in detail with the resulting risks and the relevant effects on accounting in the first half of 2020.

In the opinion of the management, there is no sign of an increased default risk for trade receivables and contract assets. Therefore, no impact on the expected credit losses pursuant to IFRS 9 has been considered.

The current crisis constitutes an indication for potential impairment in accordance with IAS 36.12. An impairment test was carried out which, in addition to the current development of the cost of capital, takes into account an updated 4-year plan. Various scenarios (high case, real case, low case) with different weightings were incorporated into the current planning. Otherwise, the assumptions and procedures correspond to those used in the impairment test at the end of 2019. As of June 30, 2020, no impairment of goodwill or other non-current non-financial assets was required.

The German federal government as well as governments of other countries in which ADVA operates or maintains subsidiaries or branches have introduced economic stimulus measures and other bridging measures to overcome the corona crisis. ADVA makes use of such measures as far as possible and reasonable. A key measure is the raising of a EUR 40 million KfW backup line under the "KfW Entrepreneur Loan" special program 2020. The contract was signed on July 21, 2020. The utilization of other government support measures in connection with Covid-19, such as the waiver of social security contributions and the postponement of tax payments and the payment of social security contributions, resulted in liquidity effects and an improvement in earnings in 6M 2020.

ADVA calculates the income tax expense during the year on the basis of the estimated expected tax rate. The consequences of the Covid-19 crisis and the resulting government tax measures should not have a significant impact on this estimate and on the valuation of deferred taxes. In particular, ADVA recognizes deferred tax assets in respect of unused tax losses and other deductible temporary differences only to the extent as sufficient deferred tax liabilities are available. Beyond that ADVA did not recognize any additional deferred tax assets. Therefore, a possible adverse impact of current global situation on the future profits of ADVA Group should not trigger any need for impairment of deferred tax assets.

(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, 2020, and December 31, 2019, cash and cash equivalents include EUR 310 thousand and EUR 175 thousand, respectively, to which ADVA has only limited access.

On June 30, 2020, cash of EUR 3,916 thousand (December 31, 2019: EUR 1,763 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.

(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)	**Jun. 30, 2020**	**Dec. 31, 2019**
Gross trade accounts receivable	**95,498**	**97,884**
Depreciation	-2,754	-1,691
Net trade accounts receivable	**92,744**	**96,193**

A reconciliation of the risk provision for trade accounts receivable carried at amortized cost is included in the table below:

(in Tausend EUR)	2020	2019
Jan. 1	**1,691**	**638**
Addition/release of risk provision according to IFRS 9	82	-3
Addition of specific allowances	1,012	-
Usage	-9	-1
Foreign currency translation effects	-22	5
Jun. 30	**2,754**	**639**

In Q2 2020, the group has entered into a revolving trade accounts receivable facility agreement, which entitles the group to transfer receivables from certain customers. An interest rate of 1.25% p.a. is charged for the transfer of receivables. In addition, a reserve of 8% is retained as collateral, for which a provision is set up at ADVA at the time the receivable is sold.

On June 30, 2020, trade accounts receivable include receivables of EUR 19,242 thousand related to the new and an existing sale of receivables agreement (December 31, 2019: EUR 10,321 thousand), for which no transfer had taken place as of June 30, 2020. In 6M 2020, interest expenses of EUR 28 thousand (6M 2019: EUR 137 thousand) were incurred from the existing agreements.

(8) Contract assets

The contract assets amounting to EUR 563 thousand (December 31, 2019: EUR 654 thousand) mainly relate to claims from services not yet invoiced. In prior year, one service contract with a customer in the US was included. 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 2020.

(9) Inventories

In 6M 2020, write-downs amounting to EUR 2,206 thousand (6M 2019: EUR 1,601 thousand) were recognized as expense within costs of goods sold. This amount includes reversals of earlier write-downs in the amount of EUR 384 thousand (6M 2019: EUR 651 thousand) due to higher selling and input prices.

In 6M 2020 and 6M 2019, material costs of EUR 131,213 thousand and EUR 122,302 thousand, respectively, have been recognized.

(10) Other current and non-current assets

On June 30, 2020, and at prior year-end other current assets analyze as follows:

(in thousands of EUR)	Jun. 30, 2020	Dec. 31, 2019
Non-financial assets		
Prepaid expenses	3,976	3.578
Receivables due from tax authorities	828	2.231
Other	543	2.203
Total current non-financial assets	**5,347**	**8.012**
Financial assets		
Government grant allowances for research projects	1,939	1,920
Positive fair values of derivative financial instruments	77	0
Other	1,894	986
Total current financial assets	**3,910**	**2,906**
	9,257	**10,918**

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

On June 30, 2020, and December 31, 2019, other non-current assets only include financial assets. They analyze as follows:

(in thousands of EUR)	Jun. 30, 2020	Dec. 31, 2019
Financial assets		
Government grant allowances for research projects	1,172	1,882
Other	1,599	1,537
Total non-current financial assets	**2,771**	**3,419**

On June 30, 2020 and December 31, 2019, 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.

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.

For all other financial assets included in the balance sheet at June 30, 2020, 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, 2019.

On June 30, 2020 and December 31, 2019, government grants for 18 and 17 research projects are recognized. These public grants relate to programs promoted by the EU and national governments.

(11) Right-of-use assets

Right-of-use assets can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2020	Dec. 31, 2019
Leased cars	1,577	1,874
Leased premises	26,669	30,111
	28,246	**31,985**

From January 1, 2019, lease terms of between 36 and 120 months were applied taking into account the minimum rental periods and contractual extension options. In 6M 2020, depreciation of EUR 569 thousand (6M 2019: EUR 379 thousand) for vehicles and EUR 2,602 thousand for office and building rentals are included in operating profit (6M 2019: EUR 2,743 thousand).

An amount of EUR 291 thousand, which mainly relates to short-term leases continues to be recognized in operating profit (6M 2019: EUR 566 thousand). In addition, variable lease payments of EUR 1,159 thousand were not included in the measurement of lease liabilities and are also recognized in operating profit (6M 2019: EUR 1,241 thousand). In the cash flow statement, the cash outflows resulting from these items are included in the cash flow from operating activities.

Information on the respective lease liabilities is provided in note (13).

(12) Property, plant and equipment

Property, plant and equipment can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2020	Dec. 31, 2019
Land and buildings	6,705	6,973
Technical equipment and machinery	21,072	22,104
Factory and office equipment	2,640	2,883
Assets under construction	746	662
	31,163	**32,622**

In 6M 2020 and 6M 2019, there were neither impairments nor write-backs of property, plant and equipment impaired in prior years.

In 6M 2020, the group has not received any cash payments for government grants related to purchases (6M 2019: none). Based on grant notifications no historical costs have been deducted in 6M 2020 (6M 2019: none).

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, 2020**	**Dec. 31, 2019**
Capitalized development projects	98,981	96,169
Intangible assets acquired in business combinations	18,363	20,864
Other intangible assets	6,508	3,704
	123,852	**120,737**

In 6M 2020, borrowing costs of EUR 188 thousand (6M 2019: EUR 188 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 1.8% (prior year: 1.7%).

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

(in thousands of EUR)	**Jun. 30, 2020**	**Dec. 31, 2019**
Purchased technology FiSEC	-	121
Purchased hardware technology Overture	-	88
Purchased software technology Overture	1,495	1,841
Purchased technology MRV	4,838	5,670
Brand Ensemble	21	43
Purchased customer relationships Overture	2,441	2,808
Purchased customer relationship MRV	9,568	10,293
	18,363	**20,864**

Amortization of intangible assets with a finite useful life comprises:

(in thousands of EUR)	Q2 2020	Q2 2019	6M 2020	6M 2019
Capitalized development projects	9,451	8,570	18,822	15,781
Intangible assets acquired in business combinations	1,139	1,408	2,387	2,824
Other intangible assets	829	825	1,661	1,675
	11,419	**10,803**	**22,870**	**20,280**

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

(in thousands of EUR)	Q2 2020	Q2 2019	6M 2020	6M 2019
Purchased technology FiSEC	48	72	121	145
Purchased hardware technology Overture	-	173	88	346
Purchased software technology Overture	173	265	346	529
Purchased technology MRV	403	394	804	784
Brand Ensemble	11	10	21	21
Purchased customer relationships OSA	-	-	-	18
Purchased customer relationships Overture	176	174	353	344
Purchased customer relationships MRV	328	320	654	637
	1,139	**1,408**	**2,387**	**2,824**

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 2020 and 6M 2019 no impairment of intangible assets with finite useful economic lives was recognized.

(13) Lease liabilities

Variable lease payments of EUR 1,159 thousand have not been included in the measurement of lease liabilities and were recognized in the operating result (6M 2019: EUR 1,241 thousand). 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 515 thousand is included in the financial result (6M 2019: EUR 588 thousand).

The lease liabilities are classified by maturity as follows:

(in thousands of EUR)	Jun. 30, 2020	Dec. 31, 2019
Up to one year	5,842	6,082
One to three years	14,845	16,772
More than three years	9,984	11,576
	30,671	**34,430**

(14) Liabilities to banks

On February 17, 2020, ADVA used the existing credit line from the syndicated loan of EUR 10,000 thousand in full. On May 18, 2020, the usage was extended for a further fixed-interest period.

On June 30, 2020, the group had fully used all committed borrowing facilities (undrawn committed borrowing facilities available on December 31, 2019: EUR 10,000 thousand).

On June 30, 2020, the net book value of EUR 81,843 thousand equals the fair value of the total loans amount. For all other financial liabilities included in the balance sheet at June 30, 2020, 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, 2019.

Further information on lease liabilities is contained in note (13).

(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, 2020 can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2020	Dec. 31, 2019
Non-financial liabilities		
Liabilities to employees for vacation	4,644	2,459
Liabilities due to withheld wage income tax and social security contribution	3,394	2,954
Liabilities due to tax authorities	3,780	2,630
Obligations from subsidized research projects	2,249	2,211
Total current non-financial liabilities	**14,067**	**10,254**
Financial liabilities		
Negative fair values of derivative financial instruments	124	336
Liabilities to employees for variable compensation and	3,476	18,290
Other	2,196	2,337
Total current financial liabilities	**5,796**	**20,963**
	19,863	**31,217**

On June 30, other non-current liabilities include:

(in thousands of EUR)	Jun. 30, 2020	Dec. 31, 2019
Non-financial liabilities		
Obligations from subsidized research projects	1,664	2,289
Other	17	17
Total non-current non-financial liabilities	**1,681**	**2,306**
Financial liabilities		
Other	1,480	505
Total non-current financial liabilities	**1,480**	**505**
	3,161	**2,811**

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

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) Pension obligations and other provisions

Additions to pension provisions are made during the year on the basis of a forecast value determined as part of the actuarial valuation as of December 31, 2019. Due to the Covid-19 situation, the two largest pension plans were revalued in Q2 2020. This revaluation resulted in a reduction of the pension obligation in Israel by EUR 243 thousand. According to the actuarial report, the effects were partly taken into account in the revaluation result in equity and partly in the result of the current period. There were no material changes to the pension obligation in Switzerland. Thus, no adjustment was made during at the end of June 2020.

Other provisions on June 30, 2020 can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2020	Dec. 31, 2019
Current provisions		
Warranty provision	2,693	1,546
Personnel provisions	9,800	1,452
Consulting fees	2,686	2,975
Supplier obligations	9,690	7,913
Other short-term provisions	551	493
	25,420	**14,379**
Non-current provisions		
Warranty provision	1,420	1,337
Other long-term provisions	173	43
	1,593	**1,380**
	27,013	**15,759**

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, 2020 can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2020	Dec. 31, 2019
Current contract liabilities		
Advance payments received	291	185
Current contract liabilities related to customer loyalty programs	854	481
Current deferred revenues related to service level agreements	17,486	11,782
	18,631	**12,448**
Current refund liabilities	**1,013**	**709**
Non-current contract liabilities		
Non-current deferred revenues related to service level agreements	11,614	7,070
	11,614	**7,070**
	31,258	**20,227**

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 8,093 thousand (December 31, 2019: EUR 11,059 thousand).

Management expects that 64% of the outstanding (or partially outstanding) benefit obligations as of December 31, 2019, will be recognized as revenue in the 2020 financial year. The remaining 36% are expected to be recognized as sales in 2021 mainly.

The above amount does not include variable compensation components which are limited.

(18) Stockholders' equity

On June 30, 2020, the share capital amounts to EUR 50,188 thousand (on December 31, 2019: EUR 50,182 thousand).

In connection with the exercise of stock options, 6,000 shares were issued to employees and management board of the company and its group companies out of conditional capital in 6M 2020. The par value of EUR 6 thousand was appropriated to the share capital, whereas the premium of EUR 19 thousand was recognized as capital reserve.

The annual shareholder´s meeting on May 13, 2020, resolved the increase of conditional capital 2011/I by EUR 276 thousand to EUR 5,018 thousand. The resolution was registered in the commercial register on May 28, 2020.

Considering the above described capital transactions, the total conditional capital on June 30, 2020 amounts to EUR 5,012 thousand.

The changes in share capital, authorized and conditional capital are summarized below:

(in thousands of EUR)	Share capital	Authoriz ed capital 2019/I	Conditional capital 2011/I
Jan. 1, 2020	**50,182**	**24,965**	**4,742**
Changes due to Annual Shareholders' Meeting resolutions	-	-	276
Stock options exercised	6	-	-6
Jun. 30, 2020	**50,188**	**24,965**	**5,012**

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

(19) Revenues

In 6M 2020 and 6M 2019, revenues included EUR 40,676 thousand and EUR 35,822 thousand for services, respectively. The remaining revenues relate mainly to product sales.

In 6M 2020, revenues related to customer loyalty programs amounting to EUR 84 thousand (6M 2019: EUR 93 thousand) have been recognized.

In 6M 2020, revenues of EUR 248,944 thousand relate to performance obligations that were performed at a specific point in time, and revenues of EUR 28,766 thousand relate to performance obligations that were delivered over a period of time (6M 2019: EUR 231,992 thousand and EUR 29,383 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 2020**	**Q2 2019**	**6M 2020**	**6M 2019**
Other operating income				
Government grants received	308	520	631	909
Income for the supply of development services	-	-	35	-
Release of bad debt allowances	12	-	12	18
Release of provisions	557	1,002	622	1,133
Other	-157	324	589	1,124
	720	**1,846**	**1,889**	**3,184**
Other operating expenses				
Impairment of trade accounts receivable	-	-5	-33	-11
Other	-294	-23	-1,442	-119
	-294	**-28**	**-1,475**	**-130**
Other operating income and expenses, net	**426**	**1,818**	**414**	**3,054**

(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 was included in 6M 2019.

Interest expenses are primarily incurred on financial liabilities and on the sale of receivables. In addition, this item also includes net interest expenses from the measurement of defined benefit pension plans and interest expenses from leasing in accordance with IFRS 16.

(22) Currency translation gains and losses, net

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

(in thousands of EUR)	Q2 2020	Q2 2019	6M 2020	6M 2019
Foreign currency exchange gains	2,010	922	4,448	2,509
thereof: gains from forward rate agreements	*113*	*252*	*927*	*319*
Foreign currency exchange losses	-1,312	-966	-5,008	-1,769
thereof: losses from forward rate agreements	*-143*	*-21*	*-242*	*-243*
	698	**-44**	**-560**	**740**

(23) Income taxes

The tax expenses in 6M 2020 and 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 2020, restructuring expenses including severance payments as well as related legal costs amounting to EUR 752 thousand have been recognized. In 6M 2019, no restructuring expenses 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.

The movements of liabilities from financing activities analyze as follows:

(in thousands of EUR)	Lease liabilities	Liabilities to banks	Total liabilities from financing activities
Jan. 1, 2019	**n/a**	**89,484**	**89,484**
Recognized on adoption of IFRS 16	37,138	-	37,138
Cashflow	-2,561	-9,250	-11,811
Non-cash changes	1,163	-91	1,072
Foreign exchanges adjustments	509	-	509
Jun. 30, 2019	**36,249**	**80,143**	**116,392**
Jan. 1, 2020	**34,430**	**80,979**	**115,409**
Cashflow	-4,009	750	-3,259
Non-cash changes	250	114	364
Jun. 30, 2020	**30,671**	**81,843**	**112,514**

Actual interest payments for liabilities to banks amounting to EUR 646 thousand (6M 2019: EUR 807 thousand) and interest related to lease liabilities of EUR 515 thousand (6M 2019: EUR 588 thousand) are included in cash flow from financing activities.

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, 2020 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	277,710	-	-	-	-	-	277,710
Cost of goods sold	-185,231	-1,359	-	-30	-	-	-186,620
Gross profit	**92,479**	**-1,359**	-	**-30**	-	-	**91,090**
Gross margin	***33.3%***	-	-	-	-	-	***32.8%***
Selling and marketing expenses	-30,721	-1,028	-	-271	-174	-	-32,194
General and administrative expenses	-16,829	-	-	-124	-91	-	-17,044
Research and development expenses	-58,730	-	-	-252	-487	21,823	-37,646
Income from capitalization of development expenses	21,823	-	-	-	-	-21,823	-
Other operating income	1,889	-	-	-	-	-	1,889
Other operating expenses	-1,475	-	-	-	-	-	-1,475
Operating income	**8,436**	**-2,387**	**-**	**-677**	**-752**	**-**	**4,620**
Operating margin	***3.0%***						***1.7%***
Segment assets	**438,322**	**18,363**	**71,309**	**-**	**-**	**-**	**527,994**

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**

Additional information by geographical regions:

(in thousands of EUR)	Q2 2020	Q2 2019	6M 2020	6M 2019
Revenues				
Germany	34,456	24,039	53,932	46,900
Rest of Europe, Middle East and Africa	42,715	47,286	88,533	92,755
Americas	54,700	52,088	110,185	100,373
Asia-Pacific	13,153	9,803	25,060	21,348
	145,024	**133,216**	**277,710**	**261,376**

(in thousands of EUR)	Jun. 30, 2020	Dec. 31, 2019
Non-current assets		
Germany	133,168	129,055
Rest of Europe, Middle East and Africa	28,272	30,294
Americas	87,684	91,714
Asia-Pacific	5,445	6,304
	254,569	**257,367**

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

In 6M 2020, two major customers exceeded 10% of total revenues (6M 2019: two major customers). In 6M 2020, the share of revenues allocated to major end customers was EUR 75,144 thousand (6M 2019: EUR 63,984 thousand).

Non-current 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 right-of-use assets.

(27) Other financial obligations and financial commitments

On June 30, 2020, the group had purchase commitments totaling EUR 72,659 thousand in respect to suppliers (December 31, 2019: EUR 45,473 thousand).

Group entities have issued guarantees in favor of customers. On June 30, 2020, performance bonds with a maximum guaranteed amount of EUR 322 thousand were issued (December 31, 2019: EUR 2,422 thousand). At the end of 6M 2020, 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, 2020, 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**
Options outstanding at Jan. 1, 2019	**2,165,212**	**1,166,667**
Granted options	436,000	-
Exercised options	-151,011	-100,000
Forfeited options	-212,300	-
Expired options	-3,001	-
Options outstanding at Dec. 31, 2019	**2,234,900**	**1,066,667**
Granted options	90,500	100,000
Exercised options	-6,000	-
Forfeited options	-72,000	-
Options outstanding at Jun. 30, 2020	**2,247,400**	**1,166,667**
Of which exercisable	660,400	741,667

Compensation expenses arising from share-based compensation programs included in operating income were as follows:

(in thousands of EUR)	**Q2 2020**	**Q2 2019**	**6M 2020**	**6M 2019**
Plan XIV	235	313	494	647
Plan XIVa	74	119	183	250
	309	**432**	**677**	**897**

(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, 2020, in the sense of IAS 24.

Teleios Capital Partners LLC is an investment company based in Zug, Switzerland. On June 30, 2020, Teleios Capital Partners LLC held a 19.95% share in the equity of ADVA. No business relations existed with Teleios Capital Partners LLC.

On June 30, 2020, 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 2020, ADVA acquired components with an amount of EUR 2 thousand from the EGORA group (6M 2019: EUR 6 thousand). In 6M 2020 and 6M 2019, 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 2020 and 6M 2019, these agreements were not utilized.

On June 30, 2020, no trade accounts payable existed in respect to EGORA group (December 31, 2019: nil).

In 6M 2020 and 6M 2019, Saguna Networks Ltd. has not performed development services for the group.

In 6M 2020, Harmonic Inc. acquired products with an amount of EUR 3 thousand from ADVA (6M 2019: nil). On June 30, 2020 no trade receivables existed in respect to Harmonic Inc. (December 31, 2019: nil).

ADVA entered a service agreement with Fraunhofer Heinrich Hertz Institute. In 6M 2020, ADVA did not acquire any services (6M 2019: nil). On June 30, 2020, no trade accounts payable existed in respect to Fraunhofer Heinrich Hertz Institute (December 31, 2019: nil).

In 6M 2020 ADVA sold products amounting to EUR 322 thousand to the Fraunhofer Heinrich Hertz Institute (6M 2019: nil).

On June 30, 2020 and December 31, 2019 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, 2020	**Dec. 31, 2019**	**Jun. 30, 2020**	**Dec. 31, 2019**
Brian Protiva Chief executive officer	401,030	401,030	335,000	285,000
Christoph Glingener Chief technology officer & chief operating officer	-	-	325,000	275,000
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 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,
- EUR 5.76 for 100,000 options granted on May 15, 2020, respectively.

Supervisory board

On June 30, 2020, no shares or stock options were held by members of the supervisory board (December 31, 2019: none).

On June 30, 2020, trade accounts payable to the supervisory board for the pro rata compensation for Q2 2020 with an amount of EUR 59 thousand were recognized (December 31, 2019: EUR 59 thousand). The pay-out of these payables was carried out in July 2020 (January 2020).

(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, 2020, 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.adva.com).

Meiningen, July 21, 2020

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 21, 2020

Brian Protiva   Christoph Glingener

Ulrich Dopfer   Scott St. John

FINANCIAL CALENDAR

Jefferies 2020 Semiconductor, IT Hardware and Communications Infrastructure Summit	September 1 - 2, 2020 Virtual event
dbAccess European TMT Conference 2020	September 3 - 4, 2020 Virtual event
Berenberg and Goldman Sachs Ninth German Corporate Conference	September 21, 2020 Virtual event
Capital Market Conference Family Office Day	September 29, 2020 Vienna, Austria
Publication of quarterly statement 9M 2020	October 22, 2020 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. With the global spread of the Covid-19 pandemic, the risk of sustaining the supply chain increased. There are three scenarios that can lead into an inability to supply: the possible closure of one of our production and / or distribution sites due to an occurring virus infection, a supply chain constraint with one or more of our contract manufacturers, or a governmental ordered lockdown within our important production sites. Furthermore, we see a new risk due to a recession driven decline in demand, as well as an increased risk of default. All other risks and uncertainties remain unchanged and are explained in the "risk and opportunity report" section of the Group Management Report 2019.

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

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ADVA on the web

More information about ADVA, including solutions, technologies and products, can be found on the company's website at www.adva.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.adva.com.

Investor communication

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

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