Quarterly statement
3M 2021

LETTER TO THE SHAREHOLDERS

Dear shareholders and business associates

In this quarterly statement, we report the best Q1 in our long history as a publicly listed company. We've never posted higher revenues in the first quarter of a financial year, and we've never achieved higher profitability, generated more cash, or recorded a better order intake. For more than 12 months, the Covid-19 pandemic has caused global turmoil. However, throughout this time, our customers have continued developing and expanding their high-performance digital infrastructures using our technology. This network infrastructure has ensured that large parts of the world's economy continued to function even under the most challenging conditions.

Positive market dynamics

The pace of digitalization in many countries has increased noticeably as a result of the pandemic. This has had a positive impact on our industry and created numerous new opportunities for us as a company. This was the central theme of our digital capital markets day, which we held on March 23. As part of this event, which was carried out as a video conference, we gave our investors and analysts a broader insight into the changed boundary conditions of our business and explained the cornerstones of our business transformation that we had already started in 2019.

Business transformation

In the context of this letter, I will briefly recap the main pillars of this transformation:

Increased growth in software and services

Software and services have always been an integral part of our solution portfolio. However, in the early years of our company, we had little focus on these areas. We changed that, and by 2019, we were able to increase the share of software and services to around 20% of our sales. In 2020, the contribution increased further to 23%, and of our almost 1,000 engineers, about 60% now work in software development. Our Ensemble software solutions are getting stronger, and especially the newly launched network operating systems Ensemble Connector and Ensemble Activator have high growth potential. We are also expanding our competencies in our services portfolio to bring new professional services offerings to the market. Software and services have a high attachment rate with our customers and will continue to benefit our margins. We plan to continue to grow the revenue contribution of software and services and is expected to exceed 30% in the next three years.

Growth markets with a high degree of differentiation

Our investments in new technologies give us access to new markets in which we can operate in a highly differentiated and thus profitable manner with growth rates above our corporate average. On the one hand, we will address new, high-quality applications for communication service providers and internet content providers, and, especially in Europe and the USA, we will seek to take market share from Chinese suppliers. On the other hand, we will open new markets outside of these customer groups. More and more industries require a secure network infrastructure – in the best case a private network – and our recent successes, especially with state and federal government projects, are proof that we are a trusted partner for these solutions. The revenue contribution from customer segments outside the traditional network operators is expected to grow from currently around 30% to over 40% over the next three years.

Verticalization

ADVA has always stood out for its open solutions that work well with technologies and solutions from other suppliers. We have also built an open ecosystem on the supply side, so that we always have access to the best technologies from a wide range of best-in-breed suppliers, which we then used in our systems. At the same time, it is important to maintain control over crucial parts of the value chain. This includes components and subsystems that either ensure additional differentiation on the product side and thus increase competitiveness or decisively improve the cost base of your own solutions. We have started numerous of our own activities in the field of photonic integration. These include optical transmitter and receiver modules as well as highly integrated multiplexing solutions, which we successfully market. These pluggable modules are required in large numbers in our own systems and provide added value for neighboring technology areas such as switching, routing and 5G RAN technology. With the activities in the field of photonic integration, we are sustainably improving our cost base and opening new markets. The revenue contribution from these modules is expected to grow to over 10% over the next three years and to 15% by 2025.

Challenges in production and supply chains

While demand continued to develop very positively in the first quarter, we are working very hard to maintain our ability to deliver. Since the beginning of the Covid-19 crisis, production and supply chain complexity has increased substantially.

Higher transport costs and bottlenecks in various components on the part of our suppliers currently require a lot of flexibility and agility. We see shortages and longer delivery times, especially for semiconductor components. Our customers are aware of the tightening situation and place their orders much earlier than usual, so that we can secure the necessary quantities of the required components at an early stage. Nevertheless, the current boundary conditions will result in temporarily larger inventories and longer delivery times for select products in our portfolio. ADVA has already demonstrated the necessary flexibility and agility in the last 12 months, and we will continue to do so moving forward.

Networking technology made in ...?

The realization that a high-performance communication infrastructure is a strategically important asset for every economy and its companies has rekindled the technology selection discussion in many countries and markets. In the USA and Europe in particular, there is increasing pressure on network operators to reduce the use of Chinese technology when expanding their networks. In the USA, the government even launched a stimulus program to replace existing installations with technology from Chinese manufacturers. The increasing importance of the country of origin in communication technology and the increasing security requirements in many networks are changing the global competitive landscape. In both Europe and the USA, ADVA has a very credible profile as a trustworthy supplier of innovative networking technology. Since 2019, we have significantly reduced the parts of our value chain located in China and relocated them to other countries. We are currently expanding our capacities in Europe and the Americas to create further competitive advantages.

Financial flexibility is growing

Our profits in the past quarter were high, despite the first quarter of our business year having several seasonal factors that weigh on profitability. We delivered an excellent result with a pro forma EBIT margin of 8.9%. Additionally, we have further reduced our debt leverage significantly improved our net debt and further increased our financial flexibility.

Outlook

The Covid-19 crisis is not over, and many countries and industries are still struggling with the consequences of the pandemic. It is too early to speak of a global recovery in the world economy, but there is new momentum. China had already switched back to growth mode in the second half of 2020. Economic growth is currently developing rapidly in the USA, and the new administration provides stimulus for the expansion of the nation’s communications infrastructure through generous funding programs. The mood is also brightening in parts of Europe. 5G investments are advancing and the growing need for high-performance communication infrastructure with secure technology from trustworthy countries of origin will have a lasting positive effect on the demand for our solutions.

The definition of normal has shifted during the pandemic in many areas of life. Saving lives and securing basic needs for peaceful coexistence must continue to have top priority. The networking industry is an essential pillar for maintaining communication and economic processes. Our investments in innovation in recent years have given us an excellent, differentiated portfolio of solutions with which we will gain market share. The transformation of our business in the direction of growth markets with a higher proportion of software and services as well as more verticalization is making good progress and plan to bring our pro forma EBIT in the range of 10% of our revenues. We look to the future with optimism and will continue to invest all our energy and creativity in innovative solutions for the benefit of our customers, shareholders and employees.

20 April 2021

Brian Protiva

Chief executive officer

IFRS FINANCIAL HIGHLIGHTS Q1 2021

Income statement

(in thousands of EUR, except earnings per share and ratios)	Q1 2021	Q1 2020	Change
Revenues	144,473	132,686	9%
Pro forma operating income (loss) *)	12,860	-1,671	870%
Pro forma operating margin in %	8.9%	-1.3%	10.2pp
Operating income (loss)	11,573	-4,038	387%
Operating margin in %	8.0%	-3.0%	11.0pp
Net income (loss)	11,228	-7,235	255%
Diluted earnings per share in EUR	0.22	-0.14	257%

Cash flow statement

(in thousands of EUR)	Q1 2021	Q1 2020	Change
Cash flow from operating activities	27,444	11,320	142%
Cash flow from investing activities	-12,328	-17,499	-30%

Balance sheet and financial ratios

(in thousands of EUR)	Mar. 31, 2021	Dec. 31, 2020	Change
Liabilities to banks	62,679	62,621	0%
Lease liabilities	27,007	27,805	-3%
Financial debt	89,686	90,426	-1%
Cash and cash equivalents	79,060	64,881	22%
Net debt *)	10,626	25,545	-58%
Leverage (twelve-months rolling) *)	0.6x	0.7x	-14%
Net working capital *)	125,785	129,853	-3%
Working capital ratio in %*)	21.5%	23.0%	-1.5pp
Equity	279,643	263,218	6%
Equity ratio in %	53.3%	52.6%	0.7pp
Capital Employed *)	377,420	373,941	1%
ROCE in % *)	12.4%	7.3%	5.1pp

Employees

(at period end)	Mar. 31, 2021	Dec. 31, 2020	Change
	1,879	1,870	0%

*) The four key performance indicators as well as other ratios are defined in the glossary at the end of this document.

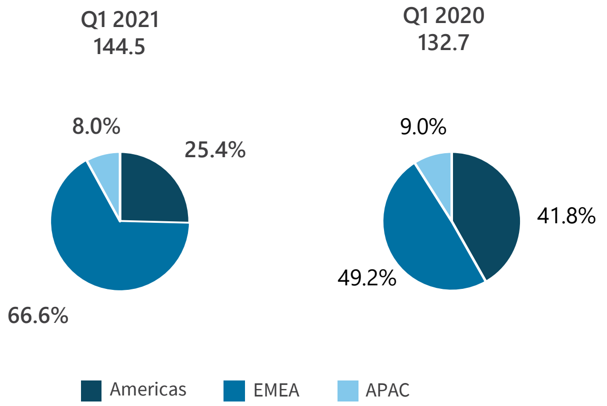
RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

Business development and operational performance

Revenue development and revenues by region

Revenues represent one of the four key performance indicators for ADVA. The group's revenues in Q1 2021 amounted to EUR 144.5 million and were EUR 11.8 million or 8.9% above revenues of EUR 132.7 million in Q1 2020. Compared to revenues of EUR 140.6 million in Q4 2020, revenues in Q1 2021 increased by 2.8%. The increase in revenues compared to Q1 2020 as well as the previous quarter was attributable to significantly higher revenue from both network operators and private companies.

In Q1 2021, EMEA (Europe, the Middle East and Africa) was once again the largest contributing sales region, followed by Americas and Asia-Pacific. Year-on-year, sales in EMEA increased significantly to EUR 96.2 million in Q1 2021 compared to EUR 65.3 million in Q1 2020. Thus, the share of total sales increased to 66.6%. ADVA has a broad, loyal customer base in many countries throughout this region and is achieving very good results. The increase is attributable to the significant rise in revenue from network operators and private companies. Revenues in Americas decreased by 33.9% from EUR 55.5 million in Q1 2020 to EUR 36.7 million in Q1 2021. The reduction compared to the prior-year quarter is due in particular to the depreciation of the US dollar against the euro and temporary softness with a few accounts. In the Asia-Pacific region, sales remained fairly stable at EUR 11.6 million in Q1 2021 compared to EUR 11.9 million in Q1 2020. In this region, project business predominates and there were no country- or customer-specific special effects.



Results of operations

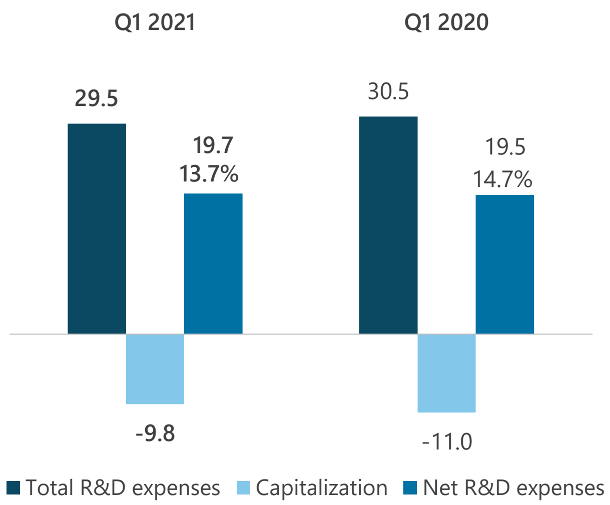
(in millions of EUR, except earnings per share)	Q1 2021	Portion of revenues	Q1 2020	Portion of revenues
Revenues	**144.5**	**100.0%**	**132.7**	**100.0%**
Cost of goods sold	-89.7	62.1%	-91.2	68.7%
Gross profit	**54.8**	**37.9%**	**41.5**	**31.3%**
Selling and marketing expenses	-15.7	10.8%	-17.4	13.1%
General and administrative expenses	-8.5	5.9%	-8.6	6.5%
Research and development expenses	-19.7	13.7%	-19.5	14.7%
Other operating income and expenses, net	0.7	0.5%	0	0%
Operating income (loss)	**11.6**	**8.0%**	**-4.0**	**-3.0%**
Interest income and expenses, net	-0.4	0.2%	-0.5	0.4%
Financial gains and losses, net	0.7	0.5%	-1.3	1.0%
Income (loss) before tax	**11.9**	**8.3%**	**-5.8**	**-4.4%**
Income tax benefit (expense), net	-0.7	0.5%	-1.4	1.1%
Net income (loss)	**11.2**	**7.8%**	**-7.2**	**-5.5%**
Earnings per share in EUR				
basic	0.22		-0.14	
diluted	0.22		-0.14	

Despite increased revenues, cost of goods sold slightly decreased by EUR 1.5 million to EUR 89.7 million in Q1 2021. In Q1 2021, cost of goods sold included EUR 10.4 million (Q1 2020: EUR 9.4 million) of amortization of capitalized development projects.

Gross profit significantly increased from EUR 41.5 million in Q1 2020 to EUR 54.8 million in Q1 2021, with gross margin at 37.9% in Q1 2021 also clearly above 31.3% reported in Q1 2020. The increase in the gross margin in Q1 2021 compared to Q1 2020 results from a change in the customer and product mix as well as exchange rate factors.

Within operating costs, sales and marketing expenses in Q1 2021 of EUR 15.7 million were below the prior-year number of EUR 17.4 million in Q1 2020. They amounted to 10.8% and 13.1% of revenues. The decrease results in particular from lower travel and marketing costs due to the ongoing Covid-19 situation. In addition, Q1 2020 included higher valuation allowances on customer receivables.

General and administrative expenses of EUR 8.5 million in Q1 2021 remained fairly stable compared to EUR 8.6 million in Q1 2020 and amounted to 5.9% and 6.5% of revenues, respectively.



At EUR 19.7 million in Q1 2021, R&D expenses were also at a similar level as the EUR 19.5 million seen in Q1 2020, comprising 13.7% and 14.7% of revenues, respectively. Gross R&D expenses decreased to EUR 29.5 million in Q1 2021 compared to EUR 30.5 million reported in Q1 2020, and income from capitalization of development expenses decreased from EUR 11.0 million in Q1 2020 to EUR 9.8 million in Q1 2021. The capitalization rate in Q1 2021 amounted to 33.3%, down from 36.1% reported in Q1 2020.

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 existing network structures and supplement existing solutions.

ADVA's operating income improved significantly from negative EUR 4.0 million in Q1 2020 to a positive EUR 11.6 million in Q1 2021, mainly driven by higher revenues and an increase in the operating margin in the current quarter.

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 Q1 2021, ADVA reported a pro forma operating income of EUR 12.9 million after a pro forma operating loss of EUR 1.7 million in Q1 2020, representing 8.9% after negative 1.3% of revenues, respectively.

The reconciliation of operating income (loss) to pro forma operating income (loss) is as follows:

(in millions of EUR)	**Q1 2021**	**Q1 2020**
Operating income (loss)	**11.6**	**-4.0**
Expenses related to share-based compensation	0.3	0.4
Amortization of intangible assets from business combinations	1.0	1.2
Restructuring expenses	-	0.7
Pro forma operating income (loss)	**12.9**	**-1.7**

Beyond the operating result net loss is impacted by net interest expenses of EUR 0.4 million (Q1 2020: EUR 0.5 million), which includes interest effects from lease accounting of EUR 0.2 million (Q1 2020: EUR 0.3 million). Furthermore, net financial gains of EUR 0.7 million (Q1 2020: net financial losses of EUR 1.3 million) relating to the revaluation of foreign currency assets and liabilities and the result on hedging instruments, impacted the net income in Q1 2021.

In Q1 2021, the group reported an income tax expense of EUR 0.7 million after an income tax expense of EUR 1.4 million in Q1 2020. 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.

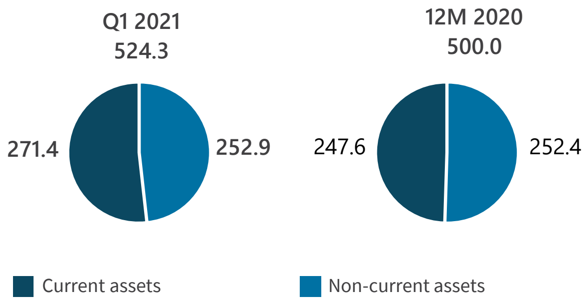
Summary: Business development and operational performance

In Q1 2021, ADVA recorded an increase in revenues compared to the previous year with a significantly improved gross margin at the same time. Due to the positive operating result development in Q1 2021, ADVA reports a net profit of EUR 11.2 million in the current period compared to a net loss of EUR 7.2 million in Q1 2020.

Net assets and financial position

Balance sheet structure

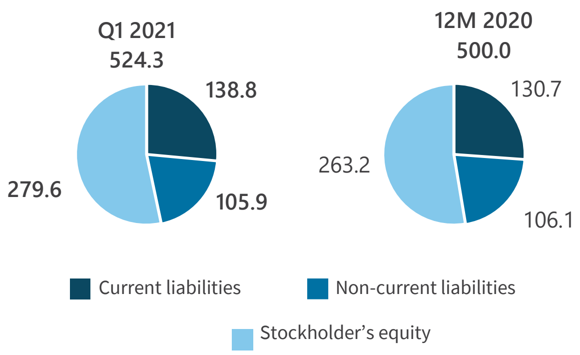
ADVA's total assets increased by EUR 24.3 million from EUR 500.0 million at the end of 2020 to EUR 524.3 million at the end of March 2021 mainly due to the decline in inventories and trade accounts receivable.



Current assets amounted to EUR 271.4 million at the end of Q1 2021, EUR 23.8 million higher than the corresponding figure of EUR 247.6 million at the end of 2020 and accounted for 51.8% and 49.5% of total assets at these reporting dates, respectively. The increase in current assets was mainly due to the increase in cash and cash equivalents to EUR 79.1 million. The increase results in particular from the improvement in cash flow from operating activities presented in the cash flow section. In addition, trade receivables increased from EUR 83.9 million on December 31, 2020 to EUR 88.0 million at the end of Q1 2021, and DSOs decreased from 58 days in 12M 2020 to 54 days in Q1 2021. At the same time, inventories increased from EUR 90.1 million on December 31, 2020 to EUR 93.9 million at the end of Q1 2021. Inventory turns in Q1 2021 slightly increased to 4.0x compared to the value in 12M 2020 of 3.9x.

Non-current assets increased slightly to EUR 252.9 million at the end of Q1 2021 from EUR 252.4 million at year-end 2020. While goodwill increased by EUR 2.4 million due to exchange rate effects, other non-current asset items, including rights of use from leases, decreased by a total of EUR 3.2 million, in particular due to scheduled depreciation.

Meaningful additional assets belonging to ADVA are the broad and global customer base of several hundred service providers and thousands of enterprises, the ADVA, Oscilloquartz and Ensemble brands, the vendor and partner relationships and a highly motivated and skilled global team. These assets are not recognized in the balance sheet. Customer satisfaction as measured by the net promoter score represents one of the group’s four key performance indicators. Further information on the development of the Net Promoter Score is presented in the Annual Report 2020.



On the equity and liabilities side, current liabilities increased from EUR 130.7 million on December 31, 2020 to EUR 138.8 million on March 31, 2021. This increase is primarily attributable to significantly higher trade payables. These amounted to EUR 56.1 million at the end of Q1 2021, EUR 11.9 million higher than the EUR 44.2 million reported at the end of December 2020. In Q1 2021, DPOs amounted to 50 days compared to 63 days in 12M 2020. The increase in trade accounts payable resulted in particular from the scheduling of material purchases and from increased purchases in connection with increasing revenues. In addition, current provisions increased by EUR 6.1 million, in particular due to the pro rata recognition of variable compensation components for the current financial year. At the same time, other current liabilities decreased by EUR 12.2 million to EUR 19.8 million as of March 31, 2021, in particular due to the payment of variable compensation components for 2020 in Q1 2021. Current contract liabilities amounted to EUR 18.1 million as of March 31, 2021, compared to EUR 16.4 million reported at year-end 2020.

Non-current liabilities of EUR 105.9 million at the end of Q1 2021 are almost unchanged from the EUR 106.1 million reported at the end of 2020. Within non-current liabilities, deferred tax liabilities increased by EUR 0.7 million. Non-current lease liabilities amounted to EUR 21.0 million at the end of Q1 2021, below the amount of EUR 22.0 million reported at year-end 2020.

Stockholders' equity increased from EUR 263.2 million reported on December 31, 2020, to EUR 279.6 million on March 31, 2021. The equity ratio was at 53.3% on March 31, 2021, after 52.6% on December 31, 2020, while the non-current assets ratio amounted to 110.6% and 104.3%, respectively, with stockholders' equity fully covering the non-current assets.

Capital expenditures

Capital expenditures for additions to property, plant and equipment in Q1 2021 amounted to EUR 2.4 million, down from the EUR 3.0 million seen in Q1 2020.

Capital expenditures for intangible assets of EUR 10.0 million in Q1 2021 were also down from EUR 14.5 million in Q1 2020. This total consists of capitalized development projects of EUR 9.9 million in Q1 2021 after EUR 11.0 million in Q1 2020 and capital expenditures for other intangible assets of almost nil in Q1 2021 after EUR 3.5 million in Q1 2020. The investments in other intangible assets include in particular the capitalization of software licenses.

Cash flow

Cash flow from operating activities was positive EUR 27.4 million in Q1 2021, after positive EUR 11.3 million in Q1 2020, and mainly results from non-cash depreciation and amortization expenses, which were partly offset by changes in net working capital. The increase in Q1 2021 is in particular due to improved earnings before taxes, which were only partly offset by higher cash outflows for net working capital compared with the corresponding prior-year period.

Cash flow from investing activities amounted to negative EUR 12.3 million in Q1 2021 after negative EUR 17.5 million in Q1 2020. The decreased use of funds for investing activities is largely due to lower investments in other intangible assets.

Finally, net cash outflows of EUR 1.1 million were reported from financing activities in Q1 2021, after cash inflows of EUR 4.6 million from financing activities in Q1 2020. In Q1 2021, the cash outflows result from scheduled interest payments and repayments for existing bank loans and lease liabilities. The cash inflow in Q1 2020 was due to the utilization of a credit line of EUR 10.0 million to ensure liquidity in the course of the Covid-19 crisis partially offset by scheduled repayments for existing liabilities.

Overall, including the net effect of foreign currency translation of positive EUR 0.1 million, cash and cash equivalents increased by EUR 14.2 million, from EUR 64.9 million at the end of December 2020 to EUR 79.1 million on March 31, 2021. In Q1 2020, cash and cash equivalents had still decreased by EUR 1.5 million.

With the exception of local currency regulations for cash and cash equivalents in China amounting to EUR 1.6 million, there were no significant restrictions at the end of the quarter.

Financing and liquidity

ADVA's financial management is performed centrally by ADVA Optical Networking 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 useful life of the assets being financed. For any liability taken, ADVA is focused on minimizing related interest cost, as long as access to funds is not at risk. Excess funds are generally used to redeem liabilities.

Total financial debt decreased by EUR 0.7 million to EUR 89.7 million at the end of Q1 2021. While the current and non-current portion of liabilities to banks as well remained fairly stable at EUR 15.5 million and EUR 47.2 million, the current portion of liabilities from leasing increased by EUR 0.2 million to EUR 6.0 million and the non-current liabilities from leasing decreased by EUR 1.0 million to EUR 21.0 million.

On March 31, 2021, the group had not used the available committed borrowing facilities of EUR 10.0 million (on December 31, 2020: unused committed borrowing facilities amounted to EUR 50.0 million).

Net debt represents one of the four key performance indicators for ADVA. Mainly due to the previously described increase in cash and cash equivalents, net debt decreased from EUR 25.5 million at the end of 2020 to EUR 10.6 million in Q1 2021. Cash and cash equivalents on March 31, 2021, and on December 31, 2020, were invested mainly in EUR, USD and GBP.

Return on capital employed in Q1 2021 was at positive 12.4%, significantly up from positive 7.3% reported in 12M 2020. This development is mainly due to positive development of operating result in Q1 2021.

Summary: Net assets and financial position

ADVA's net assets and financial position improved significantly in Q1 2021. Net debt decreased further at the end of Q1 2021. The equity ratio improved again to 53.3% at the end of March 2021 compared to 52.6% at the end of 2020.

OUTLOOK

ADVA had an excellent start to the new fiscal year. The company achieved record Q1 results with revenues of EUR 144.5 million and a pro forma EBIT margin of 8.9%. Never before in its 26-year history has the company achieved higher revenues or higher margins in the first quarter of a financial year. The management already pointed to this substantially stronger Q1 in the publication of the financial results for the fourth quarter and fiscal year 2020 on February 25, 2021. In this context, ADVA issued guidance for the first quarter. Revenues were within the guidance corridor of between EUR 143 to 148 million, while pro forma EBIT margin was at the upper end of the guidance corridor of 7% to 9%.

The capital structure is very solid. Cash and cash equivalents increased by EUR 14.2 million from EUR 64.9 million in Q4 2020 to EUR 79.1 million in Q1 2021. Consequently, net debt further decreased from EUR 25.5 million in Q4 2020 to EUR 10.6 million in Q1 2021. Leverage as well could be reduced from 0.7x to 0.6x. This provides a very high level of financial flexibility.

All macroeconomic trends are still intact and provide a firm tailwind. The ongoing pandemic increases the importance of robust communication infrastructures and product demand remains high. In addition, the focus is increasingly shifting to security aspects in data transmission. The use of technologies from China is viewed increasingly negatively. Following US network operators, European companies are also now working on concepts to freeing themselves from this dependency. For ADVA, this new dynamic creates additional opportunities. After years of consolidation in the market, the company's profile as a western network equipment supplier with a European-American corporate culture, strong innovation and a solid business model has grown in importance.

ADVA’s transformation strategy continues to show the expected returns that contributed to the positive margin development in Q1 2021. The network synchronization technology area once again grew at an above-average rate. The company aims to further expand its innovation leadership in synchronization, security, and network operating systems and to make higher-quality applications available outside of the customer group of communication service providers. The revenue share outside of this customer group should therefore increase to over 40% by 2023.

The software and service revenue share further increased in Q1 2021 and shall increase to over 30% of revenues by 2023. Ensemble software solutions – including solutions for virtualizing network functions – have gained momentum, and the newly introduced network operating systems, Ensemble Connector and Ensemble Activator have particularly high growth potential. In the services portfolio, the company is striving to further expand its competencies, including the use of artificial intelligence and the introduction of new offers in the areas of network security, planning and consulting.

Control over important parts of the value chain is a key aspect of the telecommunications industry. This includes components and subsystems that either guarantee additional differentiation on the product side and thereby increase competitiveness or decisively improve the cost base of in-house solutions. For this purpose, the company introduced a proprietary solution of highly integrated multiplexers (transmit and receive modules), which will be further expanded. The revenue contribution shall increase to 10% in the next three years.

Based on the very good results for the first quarter, the management now considers a pro forma operating income margin of 10% at the upper end of the guidance corridor to be possible. Despite the positive development in Q1 there are still high risks in the supply chain due to the pandemic. As with many other industries, the current bottlenecks in the semiconductor industry are once again confronting telecommunications equipment suppliers with challenges. Although ADVA has proven its flexibility and agility during the pandemic, these challenges may result in revenue shifts during the year. Overall, however, management does not expect a negative impact on revenues but maintains a pro forma operating income margin of 6% as the lower end of the guidance corridor. The management now expects revenues of between EUR 580 million and EUR 610 million and a pro forma EBIT margin of between 6% and 10% for the full year 2021.

The group will continue to selectively invest in product development, technology and sales-increasing measures while maintaining cost management. However, since the duration and economic implications of the pandemic cannot be reliably predicted, the specific effects on sales and earnings for the 2021 financial year cannot be reliably estimated or quantified more precisely. The group’s main risks are explained in the “risk and opportunity report” section of the 2020 annual report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF MARCH 31, 2021 (UNAUDITED)

(in thousands of EUR)	Mar. 31, 2021	Dec. 31, 2020
Assets		
Current assets		
Cash and cash equivalents	79,060	64,881
Trade accounts receivable	87,973	83,880
Contract assets	514	442
Inventories	93,901	90,124
Tax assets	492	390
Other current assets	9,487	7,858
Total current assets	**271,427**	**247,575**
Non-current assets		
Right-of-use assets	24,367	25,386
Property, plant and equipment	30,544	31,235
Goodwill	69,454	67,036
Capitalized development projects	98,105	98,607
Intangible assets acquired in business combinations	14,619	15,004
Other intangible assets	4,652	5,302
Deferred tax asset	7,452	7,233
Other non-current assets	3,647	2,594
Total non-current assets	**252,840**	**252,397**
Total assets	**524,267**	**499,972**

(in thousands of EUR)	**Mar. 31, 2021**	**Dec. 31, 2020**
Equity and liabilities		
Current liabilities		
Current lease liabilities	5,965	5,807
Current liabilities to banks	15,507	15,492
Trade accounts payable	56,089	44,151
Current provisions	20,538	14,407
Tax liabilities	1,871	1,808
Current contract liabilities	18,143	16,377
Refund liabilities	885	633
Other current liabilities	19,763	31,963
Total current liabilities	**138,761**	**130,638**
Non-current liabilities		
Non-current lease liabilities	21,042	21,998
Non-current liabilities to banks	47,172	47,129
Provisions for pensions and similar employee benefits	8,824	8,545
Other non-current provisions	1,617	1,558
Deferred tax liabilities	14,212	13,522
Non-current contract liabilities	10,456	10,551
Other non-current liabilities	2,540	2,813
Total non-current liabilities	**105,863**	**106,116**
Total liabilities	**244,624**	**236,754**
Stockholders' equity entitled to the owners of the parent company		
Share capital	50,497	50,497
Capital reserve	321,003	320,715
Accumulated deficit	-94,334	-114,648
Net income (loss)	11,228	20,314
Accumulated other comprehensive income	-8,751	-13,660
Total stockholders' equity	**279,643**	**263,218**
Total equity and liabilities	**524,267**	**499,972**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM JANUARY 1 TO MARCH 31, 2021 (UNAUDITED)

(in thousands of EUR, except earnings per share and number of shares)	**Q1 2021**	**Q1 2020**
Revenues	**144,473**	**132,686**
Cost of goods sold	-89,683	-91,162
Gross profit	**54,790**	**41,524**
Selling and marketing expenses	-15,669	-17,440
Thereof net impairment results on financial assets	*82*	*900*
General and administrative expenses	-8,496	-8,621
Research and development expenses	-19,718	-19,489
Other operating income	1,194	1,169
Other operating expenses	-528	-1,181
Operating income (loss)	**11,573**	**-4,038**
Interest income	86	25
Interest expenses	-434	-574
Currency translation gains and losses, net	717	-1,258
Income (loss) before tax	**11,942**	**-5,845**
Income tax (expense) benefit, net	-714	-1,390
Net income (loss) entitled to the owners of the parent company	**11,228**	**-7,235**
Earnings per share in EUR		
basic	0.22	-0.14
diluted	0.22	-0.14
Weighted average number of shares for calculation of earnings per share		
basic	50,496,692	50,181,966
diluted	51,217,212	50,181,966

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

(in thousands of EUR)	Q1 2021	Q1 2020
Cash flow from operating activities		
Income (loss) before tax	11,942	-5,845
Adjustments to reconcile income/(loss) before tax to net cash provided by operating activities		
Non-cash adjustments		
Amortization of non-current assets	16,978	16,383
Loss from disposal of property, plant and equipment and intangible assets	66	164
Stock compensation expenses	288	368
Other non-cash expenses	400	330
Foreign currency exchange differences	623	71
Changes in assets and liabilities		
Decrease (increase) in trade accounts receivable	-4,165	8,040
Decrease (increase) in inventories	-3,777	13,855
Decrease (increase) in other assets	-2,716	-651
Increase (decrease) in trade accounts payable	11,938	-27,946
Increase (decrease) in provisions	6,145	4,408
Increase (decrease) in other liabilities	-10,282	2,457
Income tax paid and refunded	4	-314
Net cash provided by operating activities	**27,444**	**11,320**
Cash flow from investing activities		
Investments in property, plant and equipment	-2,411	-3,008
Investments in intangible assets	-9,951	-14,516
Interest received	34	25
Net cash used for investing activities	**-12,328**	**-17,499**
Cash flow from financing activities		
Decrease of lease liabilities	-616	-1,778
Payments received from liabilities to banks	-	10,000
Cash repayment of liabilities to banks	-	-3,125
Interest paid	-450	-514
Net cash used in (provided by) financing activities	**-1,066**	**4,583**
Net effect of foreign currency translation on cash and cash equivalents	129	86
Net change in cash and cash equivalents	**14,179**	**-1,510**
Cash and cash equivalents at the beginning of the period	64,881	54,263
Cash and cash equivalents at the end of the period	**79,060**	**52,753**

FINANCIAL CALENDAR

Equity Forum virtual German Spring Conference	May 17, 2021 virtual event
Needham Technology & Media Conference	May 17 – 19, 2021 virtual event
Annual Shareholders' Meeting	May 19, 2021 virtual event
CIC Market Solutions Forum	May 21, 2021 Virtual event
Cowen 2021 TMT Conference	June 1 - 2, 2021 virtual event
Capital Market Conference Family Office Day Vienna	June 17, 2021 Vienna, Austria
Publication of Six-Month-Report	July 22, 2021 Martinsried/Munich, Germany
Some dates may be affected by restrictions put in place in response to Covid-19, and thus can not be guaranteed.	

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 ongoing Covid-19 pandemic, the risk of sustaining the supply chain remained. 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 risk due to a recession driven decline in demand, as well as potential increased risk of default of individual customers. All other risks and uncertainties remain unchanged and are explained in the "risk and opportunity report" section of the Group Management Report 2020.

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.

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 considering the accounting effects in accordance with IFRS 16.

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

The **working capital ratio** shows net working capital on the balance sheet date in relation to the revenues of the current period.

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 **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.

DPO (days payable outstanding) indicates the average number of days between receipt of invoice and outgoing payment.

DSO (days sales outstanding) describes the average number of days between invoicing and receipt of payment.

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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