# Six-month report 2021

# LETTER TO THE SHAREHOLDERS

Dear shareholders and business associates,

In this half-year report, we publish business figures that fill us with a sense of accomplishment and pride. After a strong first quarter with an exceptionally good pro forma EBIT margin of 8.9%, we were able to deliver growth again in Q2 2021. Revenues rose to EUR 149.4 million and we achieved a pro forma EBIT margin of 9.7%. Additionally, we have further reduced our bank liabilities by EUR 7.5 million and increased our cash by EUR 6.0 million, which further strengthened our balance sheet. ADVA is financially stronger and more successful than ever. Our company is on a clear trajectory of growth with increasing long-term profitability.

### Strong demand continues

After a long and exhausting third wave, the number of Covid-19 infections is decreasing in many regions of the world. Nevertheless, the fear of new mutations and setbacks persists. The state of the world economy is still inconsistent and characterized by great uncertainties. However, with the help of our technology, our customers continue to develop and expand high-performance digital infrastructures. The previous lockdown measures made it clear that companies, industries and regions that had progressed further with their digitization efforts coped much better with the changing conditions, while less digitized business models and processes were often left behind. This realization accelerated digitization efforts in many places, and the willingness to invest in network expansion continued in the past quarter. As such, we see strong incoming orders from all regions and, in terms of technology, the picture is more balanced again. After 2020's recession-related weakening in the demand for cloud access solutions, the strengthening of the real economy has brought new tailwind for this part of our portfolio, resulting in all ADVA technology pillars benefiting from the demand.

### Supply chain complexity still high

While our order books are at record levels, supply chain complexity remains high. In particular, the bottlenecks in the supply of semiconductors is causing enormous stress in purchasing, production and logistics, requiring intense focus and creative solutions. We are fighting hard to secure all the components we need for Q3 2021 and beyond. So far, we have mastered the challenges very well and have largely maintained our ability to deliver. We are in close contact with our customers, who are now placing their orders much earlier than usual, and we are optimistic that the situation will begin easing towards the end of the year.

### Business Transformation

In addition, we are making good progress with the transformation of our business model. This transformation, which we presented in March at our capital markets day, is essentially based on three pillars:

- Disproportionate growth in security-relevant networks outside the classic network operator infrastructure
- Increasing sales contributions from software and services
- New markets and cost optimization through verticalization

Our success in the research and education as well as government markets, continued in the past quarter. In Q1 2021, Omdia's industry analysts confirmed that we had a market share of 48% in the EMEA region for these verticals. We expect Q2 2021's results to continue to confirm our current market leadership in the region. In North America, we ranked in the top three suppliers for this segment in the first quarter.

With our Ensemble Activator software, a network operating system for the expansion of 5G networks, we scored two important customer wins. These wins mark the beginning of the commercial introduction of disaggregated cell site gateways by international mobile network operators and are an important milestone for the implementation of open network architectures in 5G.

In terms of verticalization, we see increasing success with our MicroMux portfolio. These pluggable multiplexers are particularly advantageous for manufacturers of switching and routing equipment, as they enable more flexible and efficient use of high-speed interfaces.

## Outlook

The macro-environment for our industry continues to be good. The digitization efforts in many global regions are in full swing, and the expansion of communication infrastructure is advancing inexorably. At the same time, the importance of the country of origin in the choice of technology is increasing, and more stringent security requirements in communication networks are changing the global competitive landscape. This de-globalization trend is beneficial for us and strengthens our competitive position, especially in Europe and the US. ADVA has a very credible profile in both regions as a trustworthy supplier of innovative network technology. We are currently expanding our capacities in Europe and America to secure further advantages in an industry that has been consolidating for years. We are making good progress in transforming our business model towards sustainably higher margins.

Our balance sheet is strong, and we have steadily growing financial room for maneuver. The pandemic and the semiconductor crisis will also impact us in the second half of this financial year. Still, we feel certain that we can maintain our ability to deliver with attractive margins if demand continues to be strong. Based on the very good results for the first half of the year and the very promising outlook for the rest of the financial year, we consider a pro forma operating income of less than 7% of revenues as unlikely, hence narrowed the outlook corridor to 7% to 10% for the full year.

Our industry makes an important contribution to maintaining and safeguarding communication and economic processes. Digitization is one of the key issues in the political and economic discussion. As a European-American supplier, that enjoys the trust of a global and loyal customer base, we are at the center of the action. We will continue to invest all of our energy and creativity in innovative solutions for the benefit of our customers, shareholders and employees.

July 20, 2021

Brian Protiva

Chief executive officer

# CONTENTS

# IFRS FINANCIAL HIGHLIGHTS 6M 2021

## Income statement

| (in thousands of EUR, except earnings per share and ratios) | Q2 2021 | Q2 2020 | Change | 6M 2021 | 6M 2020 | Change |
|---|---|---|---|---|---|---|
| Revenues | 149,354 | 145,024 | 3% | 293,827 | 277,710 | 6% |
| Pro forma operating income *) | 14,415 | 10,107 | 43% | 27,275 | 8,436 | 223% |
| Pro forma operating margin in % | 9.7% | 7.0% | 2.7pp | 9.3% | 3.0% | 6.3pp |
| Operating income | 13,036 | 8,658 | 51% | 24,609 | 4,620 | 433% |
| Operating margin in % | 8.7% | 6.0% | 2.7pp | 8.4% | 1.7% | 6.7pp |
| Net income | 12,001 | 7,629 | 57% | 23,229 | 394 | n/a |
| Diluted earnings per share in EUR | 0.23 | 0.15 | 53% | 0.45 | 0.01 | n/a |

## Cash flow statement

| (in thousands of EUR) | Q2 2021 | Q2 2020 | Change | 6M 2021 | 6M 2020 | Change |
|---|---|---|---|---|---|---|
| Cash flow from operating activities | 31,684 | 37,796 | -16% | 59,128 | 49,116 | 20% |
| Cash flow from investing activities | -17,127 | -14,442 | 19% | -29,455 | -31,941 | -8% |

## Balance sheet and financial ratios

| (in thousands of EUR) | Jun. 30, 2021 | Dec. 31, 2020 | Change |
|---|---|---|---|
| Liabilities to banks | 55,237 | 62,621 | -12% |
| Lease liabilities according to IFRS | 25,910 | 27,805 | -7% |
| Financial debt | 81,147 | 90,426 | -10% |
| Cash and cash equivalents | 85,023 | 64,881 | 31% |
| Net liquidity/ (debt) *) | 3,876 | -25,545 | n/a |
| Leverage (twelve months rolling) *) | 0.5x | 0.7x | -29% |
| | | | |
| Net working capital *) | 132,767 | 129,853 | 2% |
| Working capital ratio in %*) | 22.4% | 23.0% | -0.6pp |
| Equity | 291,685 | 263,218 | 11% |
| Equity ratio in % | 53.8% | 52.6% | 1.2pp |
| Capital Employed *) | 381,383 | 373,941 | 2% |
| ROCE in % *) | 13.0% | 7.3% | 5.7pp |

## Employees

| (at period end) | Jun. 30, 2021 | Dec. 31, 2020 | Change |
|---|---|---|---|
| | 1,908 | 1,870 | 2% |

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

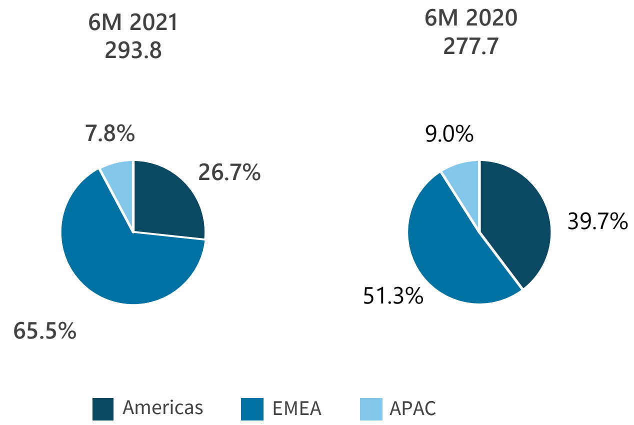
# RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

## 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 6M 2021 amounted to EUR 293.8 million and were EUR 16.1 million or 5.8% above revenues of EUR 277.7 million in 6M 2020. Compared to revenues of EUR 144.5 million in Q1 2021, revenues in Q2 2021 increased by 3.4% to EUR 149.4 million. When comparing Q2 2021 to the previous quarter, the increase in revenues is driven by a pickup in demand from communication service providers (CSPs) in the Americas.

In 6M 2021, EMEA (Europe, Middle East and Africa) was once again the most productive sales region, followed by the Americas and Asia-Pacific. Year-on-year, sales in EMEA increased significantly to EUR 192.6 million in 6M 2021 compared to EUR 142.5 million in 6M 2020. 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 strongly decreased year-on-year by 28.9% from EUR 110.2 million in 6M 2020 to EUR 78.3 million in 6M 2021, caused by temporary softness with a few customers. In the Asia-Pacific region, sales also declined in 6M 2021 to EUR 22.9 million from EUR 25.0 million in 6M 2020. The region is typically predominated by project-based business, leading to greater fluctuations in individual quarters.



### Results of operations

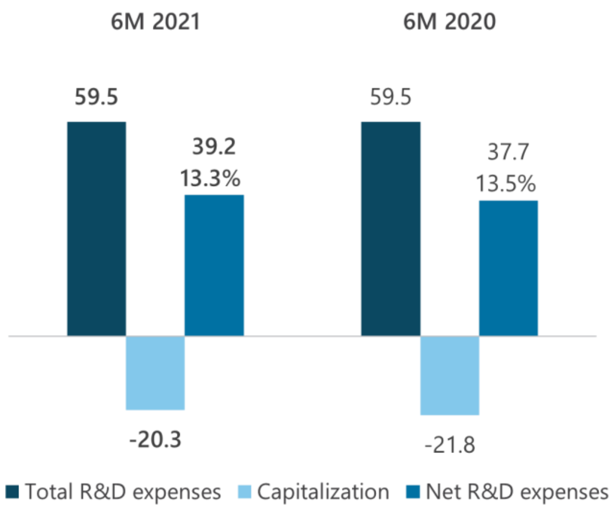
| (in millions of EUR, except earnings per share) | 6M 2021 | Portion of revenues | 6M 2020 | Portion of revenues |
|---|---|---|---|---|
| **Revenues** | **293.8** | **100%** | **277.7** | **100.0%** |
| Cost of goods sold | -182.3 | 62.1% | -186.6 | 67.2% |
| **Gross profit** | **111.5** | **37.9%** | **91.1** | **32.8%** |
| Selling and marketing expenses | -31.5 | 10.7% | -32.2 | 11.6% |
| General and administrative expenses | -17.7 | 6.0% | -17.0 | 6.1% |
| Research and development expenses | -39.2 | 13.3% | -37.7 | 13.5% |
| Other operating income and expenses, net | 1.5 | 0.5% | 0.4 | 0.1% |
| **Operating income** | **24.6** | **8.4%** | **4.6** | **1.7%** |
| Interest income and expenses, net | -0.9 | 0.3% | -1.1 | 0.4% |
| Financial gains and losses, net | 0.6 | 0.2% | -0.6 | 0.2% |
| **Income before tax** | **24.3** | **8.3%** | **2.9** | **1.1%** |
| Income tax benefit (expense), net | -1.1 | 0.4% | -2.5 | 0.9% |
| **Net income** | **23.2** | **7.9%** | **0.4** | **0.2%** |
| Earnings per share in EUR | | | | |
| basic | 0.46 | | 0.01 | |
| diluted | 0.45 | | 0.01 | |

Despite the increase in revenues cost of goods sold decreased by EUR 4.3 million to EUR 182.3 million in 6M 2021 mainly due to lower material cost. In 6M 2021, cost of goods sold included EUR 21.3 million (6M 2020: EUR 18.3 million) of amortization of capitalized development projects.

Gross profit improved from EUR 91.1 million in 6M 2020 to EUR 111.5 million in 6M 2021, with gross margins significantly improved to 37.9% in 6M 2021 after 32.8% in 6M 2020. The improvement of the gross margin in 6M 2021 compared to 6M 2020 results from a change in the customer and product mix.

Within operating costs, selling and marketing expenses in 6M 2021 of EUR 31.5 million were slightly below the prior-year number of EUR 32.2 million. They amounted to 10.7% and 11.6% of revenues, respectively.

General and administrative expenses of EUR 17.7 million in 6M 2021 slightly increased from EUR 17.0 million in 6M 2020 and amounted to 6.0% and 6.1% of revenues, respectively.




At EUR 39.2 million in 6M 2021, R&D expenses were up compared to EUR 37.7 million seen in 6M 2020, comprising 13.3% and 13.5% of revenues, respectively. While gross R&D expenses at EUR 59.5 million in 6M 2021 remained stable compared to 6M 2020. Income from capitalization of development expenses decreased from EUR 21.8 million in 6M 2020 to EUR 20.3 million in 6M 2021. The capitalization rate in 6M 2021 amounted to 34.1%, down from 36.7% reported in 6M 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 increased significantly by EUR 20.0 million to a positive EUR 24.6 million in 6M 2021, mainly driven by an increase in gross profit with operating costs remaining on similar levels as in 6M 2020. Operating costs amount to EUR 86.9 million or 29.6% of revenues in the current period after EUR 86.5 million or 31.1% of revenues in 6M 2020.

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 2021, ADVA reported a pro forma operating income of EUR 27.3 million after EUR 8.4 million in 6M 2020, representing 9.3% and 3.0% of revenues, respectively.

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

| (in millions of EUR) | 6M 2021 | 6M 2020 |
|---|---|---|
| **Operating income** | **24.6** | **4.6** |
| Expenses related to share-based compensation | 0.7 | 0.7 |
| Amortization of intangible assets from business combinations | 2.0 | 2.4 |
| Restructuring expenses | - | 0.7 |
| **Pro forma operating income** | **27.3** | **8.4** |

Beyond the operating result net income incorporates net interest expenses of EUR 0.9 million (6M 2020: EUR 1.1 million), in which interest effects from lease accounting according to IFRS 16 of EUR 0.4 million (6M 2020: EUR 0.5 million) are included. Furthermore, net financial gains of EUR 0.6 million (6M 2020: net financial losses of EUR 0.6 million) relating to the revaluation of foreign currency assets and liabilities and the result on hedging instruments, impacted the net income in 6M 2021.

In 6M 2021, the group reported an income tax expense of EUR 1.1 million after an income tax expense of EUR 2.5 million in 6M 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.

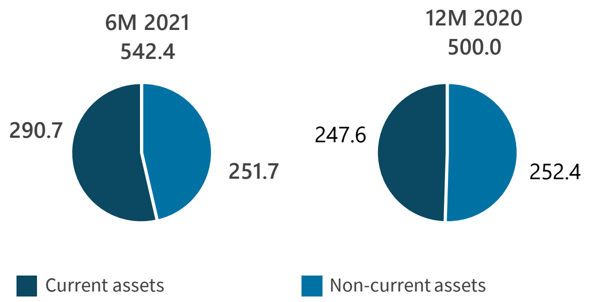
### Summary: Business development and operational performance

In 6M 2021, ADVA reported increased revenues with gross margin significantly improved at the same time. Due to the outstandingly positive development of the operating result in 6M 2021, which results in particular from an increase in gross profit with stable operating expenses, ADVA shows a significantly increased net income of EUR 23.2 million in the current period after a net income of EUR 0.4 million in 6M 2020.

## Net assets and financial position

### Balance sheet structure

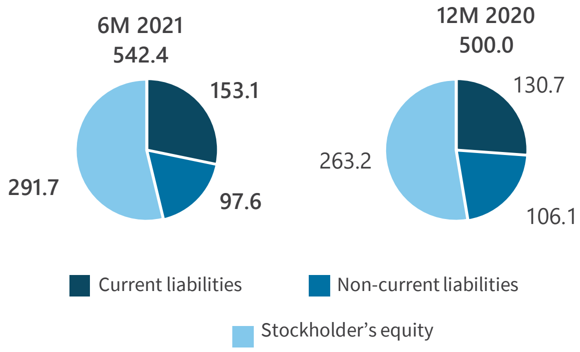
ADVA's total assets increased by EUR 42.4 million from EUR 500.0 million at the end of 2020 to EUR 542.4 million at the end of June 2021.




At EUR 290.7 million at the end of 6M 2021, current assets were EUR 43.1 million higher than the corresponding figure of EUR 247.6 million at the end of 2020, accounting for 53.6% and 49.5% of the balance sheet total, respectively, at these reporting dates. The increase in current assets was mainly driven by the significant increase in cash and cash equivalents from EUR 64.9 million at the end of 2020 to EUR 85.0 million at the end of June 2021. In addition, trade receivables increased from EUR 83.9 million at December 31, 2020 to EUR 95.1 million at the end of 6M 2021. DSOs decreased from 58 days in 12M 2020 to 55 days in 6M 2021. Inventories increased by EUR 7.6 million to EUR 97.7 million. Inventory turnover in 6M 2021 remained constant at 3.9x compared to 12M 2020. The increase in trade receivables and inventories results from higher sales and a positive development of order intake. Other current assets and prepayments increased by EUR 3.7 million and EUR 2.8 million, respectively.

Non-current assets slightly decreased to EUR 251.7 million at the end of 6M 2021 from EUR 252.4 million at year-end 2020.

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 by EUR 22.5 million from EUR 130.6 million on December 31, 2020 to EUR 153.1 million on June 30, 2021. At EUR 60.1 million, trade payables were significantly above the EUR 44.2 million reported at the end of December 2020. In 6M 2021, days payables outstanding were at 53 days compared to 55 days in 12M 2020. The decrease in trade payables was mainly due to the termination of material purchases in connection with the positive development of order intake as well as the advance procurement of materials due to expected delivery difficulties for semiconductors. Other current liabilities decreased by EUR 9.6 million in particular due to the payment of variable compensation components for 2020 in 6M 2021. At the same time, current provisions increased by EUR 11.2 million in the current period, as employees' variable compensation entitlement for 2021 has been included on a pro rata basis. Current contract liabilities amounted to EUR 21.8 million at June 30, 2021, compared to EUR 16.4 million at year-end 2020.

At EUR 97.6 million at the end of 6M 2021, non-current liabilities declined from the EUR 106.1 million reported at the end of 2020. Non-current lease liabilities amounted to EUR 19.9 million at the end of 6M 2021 compared to EUR 22.0 million reported at year-end 2020. Non-current liabilities to banks fell by EUR 7.3 million due to scheduled repayments. At the same time, deferred tax liabilities amounted to EUR 14.5 million after EUR 13.5 million reported at December 31, 2020.

Stockholders’ equity increased from EUR 263.2 million reported on December 31, 2020, to EUR 291.7 million on June 30, 2021. This increase is mainly due to the net income. The equity ratio was at 53.8% on June 30, 2021, after 52.6% on December 31, 2020. The non-current assets ratio amounted to 115.9% and 104.3%, respectively with stockholders’ equity thus fully covering the non-current assets.

### Capital expenditures

Capital expenditures for additions to property, plant and equipment in 6M 2021 amounted to EUR 6.0 million, slightly above the EUR 5.9 million seen in 6M 2020.

Capital expenditures for intangible assets of EUR 20.4million in 6M 2021 were down from EUR 26.1 million in 6M 2020. This total mainly consists of capitalized development projects of EUR 20.3 million in 6M 2021 after EUR 21.8 million in 6M 2020 and capital expenditures for other intangible assets of EUR 0.2 million in 6M 2021 after EUR 4.3 million in 6M 2020.

### Cash flow

| (in millions of EUR) | 6M 2021 | Portion of cash | 6M 2020 | Portion of cash |
|---|---|---|---|---|
| Operating cash flow | 59.1 | 69.5% | 49.1 | 72.7% |
| Investing cash flow | -29.5 | 34.6% | -31.9 | 47.3% |
| Financing cash flow | -9.5 | 11.2% | -3.9 | 5.7% |
| Net effect of foreign currency translation on cash and cash equivalents | 0.0 | 0.0% | 0.0 | 0.0% |
| **Net change in cash and cash equivalents** | **20.1** | **23.7%** | **13.3** | **19.7%** |
| Cash and cash equivalents at the beginning of the period | 64.9 | 76.3% | 54.3 | 80.3% |
| **Cash and cash equivalents at the end of the period** | **85.0** | **100.0%** | **67.6** | **100.0%** |

Cash flow from operating activities was positive EUR 59.1 million in 6M 2021, after positive EUR 49.1 million in 6M 2020, The improvement in cash flow from operating activities in the current reporting period resulted mainly from the positive development of earnings before taxes. In 6M 2020, cash flow from operating activities resulted in particular from non-cash depreciation and amortization expenses and cash inflows from the change in net working capital.

Cash flow from investing activities amounted to negative EUR 29.5 million in 6M 2021 after negative EUR 31.9 million in 6M 2020. The decreased use of funds for investing activities is largely due to lower investment capitalized development projects and other intangible assets.

Finally, net cash outflows of EUR 9.5 million were reported from financing activities in 6M 2021, after cash outflows of EUR 3.9 million from financing activities in 6M 2020. In both reporting periods, the cash outflow resulted in particular from scheduled repayments and interest payments for existing liabilities to banks and liabilities from leases. In 6M 2020, the cash outflows were partially offset by the utilization of an existing credit line in the amount of EUR 10.0 million.

Overall, including the net effect of foreign currency translation of EUR 0.0 million in 6M 2021 (6M 2020: negative EUR 0.0 million), cash and cash equivalents significantly increased by EUR 20.1 million, from EUR 64.9 million at the end of December 2020 to EUR 85.0 million on June 30, 2021.

### 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.

Financial debt of EUR 81.1 million at June 30, 2021 is EUR 9.3 million lower than at December 31, 2020.

On June 30, 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 liquidity 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 decrease in financial debt, ADVA reports a net liquidity of EUR 3.9 million at the end of June 2021 after a net debt of EUR 25.5 million at 2020 year-end. Cash and cash equivalents on June 30, 2021, and on December 31, 2020 were invested mainly in EUR, USD and GBP.

Return on capital employed in 6M 2021 was at positive 13.0%, significantly up from positive 2.5% reported in 6M 2020. This development is mainly due to the increased operating result in 6M 2021.

### Summary: Net assets and financial position

ADVA's net assets and financial position improved in 6M 2021 in particular due to increased cash and cash equivalents. The Group reports a net liquidity at the end of June 2021. Current liabilities continue to be fully covered by cash and cash equivalents and outstanding trade receivables at the end of 6M 2021.

## 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, 2021, or the group's and the company's financial performance for 6M 2021. Also, 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.

The risks and uncertainties as reported in the "risk and opportunity report" section of the Group Management Report 2020 remain unchanged.

# OUTLOOK

Despite the high level of complexity in supply chains, primarily caused by the semiconductor crisis, ADVA reported a very successful first half of 2021. ADVA has again demonstrated its ability to react very flexibly to new challenges and to ensure the company's success. The first quarter of 2021 was the best first quarter of a financial year in the company's history and the second quarter was also the most profitable second quarter in the company's history with a reported proforma EBIT margin of 9.7%. Proforma EBIT increased both, compared to the previous quarter and compared to the year-ago quarter.

ADVA continues to have a solid capital structure. Compared to Q1 2021, cash increased by around EUR 6.0 million to EUR 85.0 million. In addition, the company reported a net cash position (EUR 3.9 million) for the first time since the introduction of the IFRS 16 accounting standard. The leverage was also further reduced from 0.6x to 0.5x. With this, ADVA has further expanded its already high financial flexibility.

Despite rising vaccination rates against Covid-19 and a sharp decline in the number of infections, uncertainties remain and setbacks are to be expected. Nevertheless, the network expansion continues and the demand for ADVA's products and services across all technology areas is very high. In addition to the steadily growing security requirements in communication networks, the importance of the country of origin in the choice of technology plays an increasingly important role for many network operators. This trend strengthens ADVA's competitive position as the only remaining specialist in optical transmission technology with a synchronization portfolio in Europe.

The transformation strategy introduced at ADVA's 2021 capital markets day is an essential part of transforming the business model to sustainably higher margins. The three strategy pillars around disproportionate growth in security-relevant networks outside the classic network operator infrastructure, increasing revenue contributions from software and services and new markets and cost optimization through verticalization activities combined with continued strict cost control are intended to ensure a sustainable, significantly higher margin profile.

The bottlenecks in the supply of semiconductors are still a major threat to the stability of the supply chain and can also lead to revenue shifts in the coming quarters. However, considering the very successful first half of 2021 and the positive outlook for the remainder of the financial year, management now assumes that an EBIT margin below 7%is unlikely. Therefore, the management has decided to confirm the revenue outlook of EUR 580 million and EUR 610 million, and specified the profitability outlook to 7% to 10%

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 2021 financial year cannot be reliably predicted. The group's main risks are explained in the "Risk and opportunities report" section of the 2020 annual report.

# SIX-MONTH IFRS CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated statement of financial position of June 30, 2021 (unaudited)

| (in thousands of EUR) | **Note** | **Jun. 30, 2021** | **Dec. 31, 2020** |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | (6) | 85,023 | 64,881 |
| Trade accounts receivable | (7) | 95,108 | 83,880 |
| Contract assets | (8) | 241 | 442 |
| Inventories | (9) | 97,739 | 90,124 |
| Tax assets | | 1,301 | 390 |
| Other current assets | (10) | 11,311 | 7,858 |
| **Total current assets** | | **290,723** | **247,575** |
| **Non-current assets** | | | |
| Right-of-use assets | (11) | 23,268 | 25,386 |
| Property, plant and equipment | (12) | 30,633 | 31,235 |
| Goodwill | | 68,831 | 67,036 |
| Capitalized development projects | (13) | 97,541 | 98,607 |
| Intangible assets acquired in business combinations | (13) | 13,439 | 15,004 |
| Other intangible assets | (13) | 7,150 | 5,302 |
| Deferred tax asset | | 7,402 | 7,233 |
| Other non-current assets | (10) | 3,408 | 2,594 |
| **Total non-current assets** | | **251,672** | **252,397** |
| **Total assets** | | **542,395** | **499,972** |

| (in thousands of EUR) | Note | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Current liabilities** | | | |
| Current lease liabilities | (14) | 6,032 | 5,807 |
| Current liabilities to banks | (15) | 15,390 | 15,492 |
| Trade accounts payable | (16) | 60,080 | 44,151 |
| Current provisions | (17) | 25,608 | 14,407 |
| Tax liabilities | | 1,324 | 1,808 |
| Current contract liabilities | (18) | 21,793 | 16,377 |
| Refund liabilities | (18) | 464 | 633 |
| Other current liabilities | (16) | 22,394 | 31,963 |
| **Total current liabilities** | | **153,085** | **130,638** |
| | | | |
| **Non-current liabilities** | | | |
| Non-current lease liabilities | (14) | 19,878 | 21,998 |
| Non-current liabilities to banks | (15) | 39,847 | 47,129 |
| Provisions for pensions and similar employee benefits | (17) | 9,230 | 8,545 |
| Other non-current provisions | (17) | 1,766 | 1,558 |
| Deferred tax liabilities | | 14,534 | 13,522 |
| Non-current contract liabilities | (18) | 10,271 | 10,551 |
| Other non-current liabilities | (16) | 2,099 | 2,813 |
| **Total non-current liabilities** | | **97,625** | **106,116** |
| | | | |
| **Total liabilities** | | **250,710** | **236,754** |
| | | | |
| **Stockholders' equity entitled to the owners of the parent company** | (19) | | |
| Share capital | | 50,655 | 50,497 |
| Capital reserve | | 321,958 | 320,715 |
| Accumulated deficit | | -94,334 | -114,648 |
| Net income | | 23,229 | 20,314 |
| Accumulated other comprehensive income | | -9,823 | -13,660 |
| **Total stockholders' equity** | | **291,685** | **263,218** |
| | | | |
| **Total equity and liabilities** | | **542,395** | **499,972** |

## Consolidated income statement
## for the period from January 1 to June 30, 2021 (unaudited)

| (in thousands of EUR, except earnings per share and number of shares) | Note | Q2 2021 | Q2 2020 | 6M 2021 | 6M 2020 |
|---|---|---|---|---|---|
| **Revenues** | (20) | **149,354** | **145,024** | **293,827** | **277,710** |
| Cost of goods sold | | -92,645 | -95,458 | -182,328 | -186,620 |
| **Gross profit** | | **56,709** | **49,566** | **111,499** | **91,090** |
| Selling and marketing expenses | | -15,866 | -14,754 | -31,535 | -32,194 |
| *Thereof net impairment results on financial assets* | | *-160* | *195* | *-78* | *1,094* |
| General and administrative expenses | | -9,195 | -8,423 | -17,691 | -17,044 |
| Research and development expenses | | -19,442 | -18,157 | -39,160 | -37,646 |
| Other operating income | (21) | 980 | 720 | 2,174 | 1,889 |
| Other operating expenses | (21) | -150 | -294 | -678 | -1,475 |
| **Operating income** | | **13,036** | **8,658** | **24,609** | **4,620** |
| Interest income | (22) | 3 | 9 | 89 | 34 |
| Interest expenses | (22) | -542 | -590 | -976 | -1,164 |
| Currency translation gains and losses, net | (23) | -130 | 697 | 587 | -561 |
| **Income before tax** | | **12,367** | **8,774** | **24,309** | **2,929** |
| Income tax (expense) benefit, net | (24) | -366 | -1,145 | -1,080 | -2,535 |
| **Net income entitled to the owners of the parent company** | | **12,001** | **7,629** | **23,229** | **394** |
| Earnings per share in EUR | | | | | |
| basic | | 0.24 | 0.15 | 0.46 | 0.01 |
| diluted | | 0.23 | 0.15 | 0.45 | 0.01 |
| Weighted average number of shares for calculation of earnings per share | | | | | |
| basic | | 50,551,596 | 50,183,219 | 50,524,296 | 50,182,592 |
| diluted | | 51,097,328 | 50,303,093 | 51,070,028 | 50,302,466 |

## Consolidated statement of comprehensive income (unaudited)

| (in thousands of EUR) | Note | Q2 2021 | Q2 2020 | 6M 2021 | 6M 2020 |
|---|---|---|---|---|---|
| **Net income entitled to the owners of the parent company** | | **12,001** | **7,629** | **23,229** | **394** |
| *Items that may be reclassified to profit or loss in future periods* | | | | | |
| Exchange differences on translation of foreign operations | | -1,072 | -4,047 | 3,837 | -3,839 |
| *Items that do not get reclassified to profit or loss in future periods* | | | | | |
| Remeasurement of defined benefit plans | | - | 172 | - | 172 |
| **Total comprehensive income (loss) entitled to the owners of the parent company** | | **10,929** | **3,754** | **27,066** | **-3,273** |

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 2021 and 6M 2020 no items were reclassified (recycled) from comprehensive income to profit or loss.

## Consolidated cash flow statement (unaudited)

| (in thousands of EUR) | Note | Q2 2021 | Q2 2020 | 6M 2021 | 6M 2020 |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| Income before tax | | 12,367 | 8,774 | 24,309 | 2,929 |
| Adjustments to reconcile income before tax to net cash provided by operating activities | | | | | |
| Non-cash adjustments | | | | | |
| Amortization of non-current assets | | 17,654 | 16,355 | 34,632 | 32,738 |
| Loss from disposal of property, plant and equipment and intangible assets | | 24 | 247 | 90 | 411 |
| Stock compensation expenses | | 377 | 309 | 665 | 677 |
| Other non-cash expenses | | 400 | 181 | 800 | 511 |
| Foreign currency exchange differences | | -260 | -2,074 | 363 | -2,003 |
| Changes in assets and liabilities | | | | | |
| Decrease (increase) in trade accounts receivable | | -6,862 | -4,500 | -11,027 | 3,540 |
| Decrease (increase) in inventories | | -3,838 | -1,184 | -7,615 | 12,671 |
| Decrease (increase) in other assets | | -1,585 | 2,926 | -4,301 | 2,275 |
| Increase (decrease) in trade accounts payable | | 3,991 | 12,059 | 15,929 | -15,887 |
| Increase (decrease) in provisions | | 5,235 | 6,828 | 11,380 | 11,236 |
| Increase (decrease) in other liabilities | | 5,513 | -1,784 | -4,769 | 673 |
| Income tax paid | | -1,332 | -341 | -1,328 | -655 |
| **Net cash provided by operating activities** | | **31,684** | **37,796** | **59,128** | **49,116** |
| **Cash flow from investing activities** | | | | | |
| Investments in property, plant and equipment | (12) | -3,610 | -2,845 | -6,021 | -5,853 |
| Investments in intangible assets | (13) | -13,517 | -11,606 | -23,468 | -26,122 |
| Interest received | | 0 | 9 | 34 | 34 |
| **Net cash used for investing activities** | | **-17,127** | **-14,442** | **-29,455** | **-31,941** |
| **Cash flow from financing activities** | | | | | |
| Proceeds from capital increase and exercise of stock options | (19) | 798 | 25 | 798 | 25 |
| Decrease of lease liabilities | (14) | -1,267 | -1,716 | -1,883 | -3,494 |
| Proceeds from liabilities to banks | (15) | - | - | - | 10,000 |
| Cash repayment of liabilities to banks | (15) | -7,500 | -6,125 | -7,500 | -9,250 |
| Interest paid | | -473 | -647 | -923 | -1,161 |
| **Net cash used in financing activities** | | **-8,442** | **-8,463** | **-9,508** | **-3,880** |
| Net effect of foreign currency translation on cash and cash equivalents | | -152 | -58 | -23 | 28 |
| **Net change in cash and cash equivalents** | | **5,963** | **14,833** | **20,142** | **13,323** |
| Cash and cash equivalents at the beginning of the period | | 79,060 | 52,753 | 64,881 | 54,263 |
| **Cash and cash equivalents at the end of the period** | | **85,023** | **67,586** | **85,023** | **67,586** |

## 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, 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** |
| **Balance on January 1, 2021** | **50,496,692** | **50,497** | **320,715** | **-94,334** | **-13,660** | **263,218** |
| Capital increase, including exercise of stock options | 158,500 | 158 | 640 | | | 798 |
| Stock options outstanding | | | 603 | | | 603 |
| Net income | | | | 23,229 | | 23,229 |
| Exchange differences on translation of foreign operations | | | | | 3,837 | 3,837 |
| Remeasurement of defined benefit plans | | | | | - | - |
| Total comprehensive income | | | | 23,229 | 3,837 | 27,066 |
| **Balance on June 30, 2021** | **50,655,192** | **50,655** | **321,958** | **-71,105** | **-9,823** | **291,685** |

## Notes to the condensed interim consolidated financial statements (unaudited)

(1) Information about the company and the group

ADVA Optical Networking SE (hereinafter also referred to as the "company" or "ADVA SE") is a Societas Europaea domiciled in Meiningen, Germany, with its registered office at Märzenquelle 1-3, 98617 Meiningen, and is 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, 2021, 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, 2020.

The condensed interim consolidated financial statements for the period ended June 30, 2021, 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 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, 2021, cannot be extrapolated to the result of the full year 2021.

(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 2021.

## STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE FOR THE FIRST TIME IN 2021

In 6M 2021, 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 IFRS 9, IAS 39 and IFRS 7 | Reform of interest rate benchmarks (IBOR reform – phase 2) | Jan. 1, 2021 | 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 2021 and previous years that are not applicable for the financial year 2021. 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 (17).

## 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 ongoing crisis in connection with the global spreading of the corona virus, ADVA management has again dealt in detail with the resulting risks and the relevant effects on accounting in the first half of 2021.

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.

In first half of 2021, ADVA did not use economic stimulus measures and other bridging measures to overcome the corona crisis that have been set up from the federal government and governments of other countries.

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. According to the management's assessment there is no indication for impairment of deferred tax assets recognized at the end of the prior year.

(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, 2021, and December 31, 2020, cash and cash equivalents include EUR 321 thousand and EUR 222 thousand, respectively, to which ADVA has only limited access.

On June 30, 2021, cash of EUR 1,499 thousand (December 31, 2020: EUR 1,472 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 and the reconciliation of the risk provision for trade accounts receivable carried at amortized cost are as follows:

| (in thousands of EUR) | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| **Gross trade accounts receivable** | **97,769** | **86,593** |
| Allowance for expected credit losses | -2,661 | -2,713 |
| **Net trade accounts receivable** | **95,108** | **83,880** |

| (in thousands of EUR) | 2021 | 2020 |
|---|---|---|
| **Jan. 1** | **2,713** | **1,691** |
| Addition/release of risk provision according to IFRS 9 | -78 | 82 |
| Addition of specific allowances | - | 1,012 |
| Usage | -31 | -9 |
| Foreign currency translation effects | 57 | -22 |
| **Jun. 30** | **2,661** | **2,754** |

The group has a supplier finance agreement, which entitles the transfer of trade receivables from a specific customer. Credit risks and settlement risks are transferred to the financing institution. The group paid an annual fee amounting to LIBOR plus 0.75% on the volume of receivables transferred. The group fully derecognizes sold trade receivables as all risks and rewards are transferred.

In Q2 2020, the group concluded another revolving factoring agreement with a maximum annual volume of EUR 20,000 thousand. The contract entitles to transfer uninsured trade receivables with certain customers. The agreement has no maturity date. The risks relevant to the risk assessment in relation to the receivables sold are the default risk and the late payment risk. The group accounts for the sold trade receivables from the revolving factoring agreement in the amount of their continuing involvement. As of June 30, 2021, no receivables amounting were sold.

On June 30, 2021, trade accounts receivable include receivables of EUR 27,151 thousand related to both agreements described above for which no transfer had taken place (December 31, 2020: EUR 24,559 thousand),.

In 6M 2021, interest expenses of EUR 26 thousand (6M 2020: EUR 28 thousand) were incurred from the existing agreements.

(8) Contract assets

The contract assets amounting to EUR 241 thousand (December 31, 2020: EUR 442 thousand) mainly relate to claims from return deliveries. Prior year relate to claims from a service contract with a customer in the USA. Contract assets are subject to the impairment requirements of IFRS 9, however the identified impairment losses were insignificant.

(9) Inventories

In 6M 2021, write-downs amounting to EUR 2,017 thousand (6M 2020: EUR 2,206 thousand) were recognized as expense within costs of goods sold. This amount includes reversals of earlier write-downs in the amount of EUR 365 thousand (6M 2020: EUR 384 thousand) due to higher selling prices and changed customer demand.

In 6M 2021 and 6M 2020, material costs of EUR 129,696 thousand and EUR 131,213 thousand, respectively, have been recognized.

(10) Other current and non-current assets

Other current assets are as follows:

| (in thousands of EUR) | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| **Non-financial assets** | | |
| Prepaid expenses | 5,104 | 2,289 |
| Receivables due from tax authorities | 1,529 | 1,147 |
| Other | 643 | 696 |
| **Total current non-financial assets** | **7,276** | **4,132** |
| **Financial assets** | | |
| Government grant allowances for research projects | 3,251 | 2,178 |
| Positive fair values of derivative financial instruments | 200 | 0 |
| Other | 584 | 1,548 |
| **Total current financial assets** | **4,035** | **3,726** |
| **Total other current assets** | **11,311** | **7,858** |

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

On June 30, 2021, and December 31, 2020, other non-current assets only include financial assets. They are as follows:

| (in thousands of EUR) | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| **Financial assets** | | |
| Investments | 0 | 0 |
| Government grant allowances for research projects | 1,791 | 1,093 |
| Rent deposits | 1,411 | 1,397 |
| Other | 206 | 104 |
| **Total non-current financial** | **3,408** | **2,594** |

On June 30, 2021, and December 31, 2020, no impairment on current and non-current financial assets has been recognized.

The measurement of the assets and liabilities at fair value through profit or loss is based on fair values of Level 2 and Level 3. Forward rate agreements are measured using quoted forward exchange rates and yield curves derived from quoted interest rates according to the maturities of the contract.

For all other financial assets included in the balance sheet on June 30, 2021, 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, 2020.

On June 30, 2021 and December 31, 2020, government grants for 18 and 19 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, 2021 | Dec. 31, 2020 |
|---|---|---|
| Leased cars | 1,795 | **1,986** |
| Leased premises | 21,473 | **23,400** |
| **Total right-of-use assets** | **23,268** | **25,386** |

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 2021, depreciation of EUR 564 thousand (6M 2020: EUR 569 thousand) for vehicles and EUR 2,386 thousand for office and building rentals are included in operating profit (6M 2020: EUR 2,602 thousand).

An amount of EUR 227 thousand, which mainly relates to short-term leases continues to be recognized in operating profit (6M 2020: EUR 291 thousand). In addition, variable lease payments of EUR 1,054 thousand were not included in the measurement of lease liabilities and are also recognized in operating profit (6M 2020: EUR 1,159 thousand). There are no major lease payments related to low value contracts. In the cash flow statement, the cash outflows resulting from these items are included in the cash flow from operating activities. In 6M 2021 and 6M 2020 no impairment of right-of-use assets was recognized. Information on the respective lease liabilities is provided in note (14).

(12) Property, plant and equipment

Property, plant and equipment can be analyzed as follows:

| (in thousands of EUR) | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| Land and buildings | 5,801 | 6,211 |
| Technical equipment and machinery | 22,199 | 22,323 |
| Factory and office equipment | 2,380 | 2,513 |
| Assets under construction | 253 | 188 |
| **Total property, plant and equipment** | **30,633** | **31,235** |

In 6M 2021 and 6M 2020, there were neither impairments nor write-backs of property, plant and equipment impaired in prior years.

In 6M 2021, the group has not received any cash payments for government grants related to purchases (6M 2020: none). Based on grant notifications no historical costs have been deducted in 6M 2021 (6M 2020: none).

(13) Intangible assets

Capitalized development projects include expenses related to the development of technologies and products for connectivity solutions for cloud and mobile services, network functions virtualization (NFV) and synchronization technology.

In 6M 2021, borrowing costs of EUR 187 thousand (6M 2020: 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 1.7% (prior year: 1.7%).

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

| (in thousands of EUR) | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| Purchased technology FiSEC | - | - |
| Purchased hardware technology Overture | - | - |
| Purchased software technology Overture | 803 | 1,149 |
| Purchased technology MRV | 3,102 | 3,724 |
| Brand Ensemble | - | - |
| Purchased customer relationships Overture | 1,662 | 1,925 |
| Purchased customer relationship MRV | 7,872 | 8,206 |
| **Total intangible assets acquired in business combinations** | **13,439** | **15,004** |

Amortization of intangible assets with a finite useful life comprises:

| (in thousands of EUR) | Q2 2021 | Q2 2020 | 6M 2021 | 6M 2020 |
|---|---|---|---|---|
| Capitalized development projects | 10,933 | 9,451 | 21,344 | 18,822 |
| Intangible assets acquired in business combinations | 1,002 | 1,139 | 2,001 | 2,387 |
| Other intangible assets | 712 | 829 | 1,435 | 1,661 |
| **Total amortization of intangible assets** | **12,647** | **11,419** | **24,780** | **22,870** |

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

| (in thousands of EUR) | Q2 2021 | Q2 2020 | 6M 2021 | 6M 2020 |
|---|---|---|---|---|
| Purchased technology FiSEC | - | 48 | - | 121 |
| Purchased hardware technology Overture | - | - | - | 88 |
| Purchased software technology Overture | 173 | 173 | 346 | 346 |
| Purchased technology MRV | 368 | 403 | 735 | 804 |
| Brand Ensemble | - | 11 | - | 21 |
| Purchased customer relationships Overture | 162 | 176 | 323 | 353 |
| Purchased customer relationships MRV | 299 | 328 | 597 | 654 |
| **Total amortization of intangible assets acquired in business combinations** | **1,002** | **1,139** | **2,001** | **2,387** |

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 2021 and 6M 2020 no impairment of intangible assets with finite useful economic lives was recognized.

(14) Lease liabilities

Variable lease payments of EUR 1,054 thousand have not been included in the measurement of lease liabilities and were recognized in the operating result (6M 2020: EUR 1,159 thousand). In the cash flow statement, the cash outflows resulting from these items are included in the cash flow from operating activities.

The interest expense of EUR 376 thousand is included in the financial result (6M 2020: EUR 515 thousand).

The lease liabilities are classified by maturity as follows:

| (in thousands of EUR) | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| Up to one year | 6,032 | 5,807 |
| One to three years | 9,338 | 10,215 |
| More than three years | 10,540 | 11,783 |
| **Total lease liabilities** | **25,910** | **27,805** |

(15) Liabilities to banks

On June 31, 2021, the group had undrawn committed borrowing facilities of EUR 10,000 thousand available. On December 31, 2020, the undrawn committed borrowing facilities amounted to EUR 50,000 thousand.

On June 30, 2021, the net book value of EUR 55,237 thousand equals the fair value of the total loans amount.

(16) 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 are as follows:

| (in thousands of EUR) | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| **Non-financial liabilities** | | |
| Liabilities to employees for variable compensation and payroll | 4,867 | 19,209 |
| Liabilities to employees for vacation | 5,436 | 1,570 |
| Liabilities due to withheld wage income tax and social security contribution | 3,028 | 2,980 |
| Liabilities due to tax authorities | 2,373 | 2,689 |
| Obligations from subsidized research projects | 3,657 | 2,548 |
| **Total current non-financial liabilities** | **19,361** | **28,996** |
| **Financial liabilities** | | |
| Negative fair values of derivative financial instruments | 5 | 396 |
| Other | 3,028 | 2,571 |
| **Total current financial liabilities** | **3,033** | **2,967** |
| **Total other current liabilities** | **22,394** | **31,963** |

Non-current liabilities include the following:

| (in thousands of EUR) | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| **Non-financial liabilities** | | |
| Obligations from subsidized research projects | 1,771 | 1,347 |
| Other | 18 | 17 |
| **Total non-current non-financial liabilities** | **1,789** | **1,364** |
| **Financial liabilities** | | |
| Other | 310 | 1,449 |
| **Total non-current financial liabilities** | **310** | **1,449** |
| **Total other non-current liabilities** | **2,099** | **2,813** |

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 financial liabilities the fair value also corresponds with the book value of the respective positions on June 30, 2021 The classification is in line with the disclosure in the group's annual financial statements per December 31, 2020.

(17) 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, 2020.

Other provisions are as follows:

| (in thousands of EUR) | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| **Current provisions** | | |
| Warranty provision | 600 | 598 |
| Personnel provisions | 11,948 | 1,061 |
| Consulting fees | 3,026 | 3,348 |
| Supplier obligations | 9,166 | 8,821 |
| Other short-term provisions | 868 | 579 |
| **Total current provisions** | **25,608** | **14,407** |
| **Non-current provisions** | | |
| Warranty provision | 1,260 | 1,261 |
| Personnel provisions | 463 | 254 |
| Other long-term provisions | 43 | 43 |
| **Total non-current provisions** | **1,766** | **1,558** |
| **Total provisions** | **27,374** | **15,965** |

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.

(18) Contract liabilities and refund liabilities

Contract and refund liabilities are as follows:

| (in thousands of EUR) | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| **Current contract liabilities** | | |
| Advance payments received | 698 | 81 |
| Current contract liabilities related to customer loyalty programs | 718 | 839 |
| Current deferred revenues related to service level agreements | 20,377 | 15,457 |
| **Total current contract liabilities** | **21,793** | **16,377** |
| **Current refund liabilities** | **464** | **633** |
| **Non-current contract liabilities** | | |
| Non-current deferred revenues related to service level agreements | 10,271 | **10,551** |
| **Total non-current contract liabilities** | **10,271** | **10,551** |
| | **32,528** | **27,561** |

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 12,919 thousand (previous year: EUR 8,093 thousand).

Management expects that 67% of the outstanding (or partially outstanding) benefit obligations as of December 31, 2020, will be recognized as revenue in the 2021financial year. The remaining 33% are expected to be recognized as sales in 2022 mainly.

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

(19) Stockholders' equity

On June 30, 2020, the share capital amounts to EUR 50,655,192 (on December 31, 2020: EUR 50,496,692).

In connection with the exercise of stock options, 158,500 shares were issued to employees and management board of the company and its group companies out of conditional capital in 6M 2021. The par value of EUR 158 thousand was appropriated to the share capital, whereas the premium of EUR 640 thousand was recognized as capital reserve.

The annual shareholder´s meeting on May 19, 2021, resolved the increase of conditional capital 2011/I by EUR 346 thousand to EUR 5,049 thousand. The resolution was registered in the commercial register on May 27, 2021.

Considering the above-described capital transactions, the total conditional capital on June 30, 2021 amounts to EUR 4,891 thousand.

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

| (in thousands of EUR) | Share capital | Autho-rized capital 2019/I | Condi-tional capital 2011/I |
|---|---|---|---|
| **Jan. 1, 2021** | **50,497** | **24,965** | **4,703** |
| Changes due to Annual Shareholders' Meeting resolutions | - | - | 346 |
| Stock options exercised | 158 | - | -158 |
| **Jun. 30, 2021** | **50,655** | **24,965** | **4,891** |

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

(20) Revenues

In 6M 2021 and 6M 2020, revenues included EUR 40,360 thousand and EUR 40,676 thousand for services, respectively. The remaining revenues relate mainly to product sales.

In 6M 2021, revenues related to customer loyalty programs amounting to EUR 216 thousand (6M 2020: EUR 84 thousand) have been recognized.

In 6M 2021, revenues of EUR 264,338 thousand relate to performance obligations that were performed at a specific point in time, and revenues of EUR 29,487 thousand relate to performance obligations that were delivered over a period of time (6M 2020: EUR 248,944 thousand and EUR 28,766 thousand).

A summary of revenues by geographic region is provided in the section on segment reporting under note (27).

(21) Other operating income and expenses

| (in thousands of EUR) | Q2 2021 | Q2 2020 | 6M 2021 | 6M 2020 |
|---|---|---|---|---|
| **Other operating income** | | | | |
| Government grants received | 429 | 308 | 879 | 631 |
| Income for the supply of development services | 35 | - | 35 | 35 |
| Release of bad debt allowances | 39 | 12 | 39 | 12 |
| Release of provisions | 131 | 557 | 216 | 622 |
| Other | 346 | -157 | 1,005 | 589 |
| **Total other operating income** | **980** | **720** | **2,174** | **1,889** |
| | | | | |
| **Other operating expenses** | | | | |
| Impairment of trade accounts receivable | -133 | - | -210 | -33 |
| Reversal of prepayment | - | - | -226 | - |
| Other | -17 | -294 | -242 | -1,442 |
| **Total other operating expenses** | **-150** | **-294** | **-678** | **-1,475** |
| **Other operating income and expenses, net** | **830** | **426** | **1,496** | **414** |

(22) Interest income and expenses

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

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

(23) Other financial gains and losses, net

Other financial gains and losses, net, are as follows:

| (in thousands of EUR) | Q2 2021 | Q2 2020 | 6M 2021 | 6M 2020 |
|---|---|---|---|---|
| Foreign currency exchange gains | 2,901 | 2,010 | 5,505 | 4,448 |
| *thereof gains from forward rate agreements* | *79* | *113* | *339* | *927* |
| Foreign currency exchange losses | -3,031 | -1,312 | -4,918 | -5,008 |
| *thereof losses from forward rate agreements* | *-133* | *-143* | *-282* | *-242* |
| **Other financial gains and losses, net** | **-130** | **698** | **587** | **-560** |

(24) Income taxes

The tax expenses in 6M 2021 and 2020 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.

(25) Restructuring expenses

In 6M 2021, no restructuring expenses have been recognized (6M 2020: EUR 752 thousand). In 6M 2020, restructuring expenses included severance payments as well as related legal costs.

(26) 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 are as follows:

| (in thousands of EUR) | Lease liabilities | Liabilities to banks | Total liabilities from financing activities |
|---|---|---|---|
| **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** |
| | | | |
| **Jan. 1, 2021** | **27,805** | **62,621** | **90,426** |
| Cashflow | -2,259 | -7,500 | -9,759 |
| Non-cash changes | 364 | 116 | 480 |
| **Jun. 30, 2021** | **25,910** | **55,237** | **81,147** |

Actual interest payments for liabilities to banks amounting to EUR 547 thousand (6M 2020: EUR 646 thousand) and interest related to lease liabilities of EUR 376 thousand (6M 2020: EUR 515 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).

## (27) 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. Therefore, the reporting on individual business segment does not apply.

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.

Reconciliation of key performance measures to the consolidated financial information on June 30, 2021, 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 | 293,827 | - | - | - | - | - | 293,827 |
| Cost of goods sold | -181,208 | -1,081 | - | -39 | - | - | -182,328 |
| **Gross profit** | **112,619** | **-1,081** | **-** | **-39** | **-** | **-** | **111,499** |
| **Gross margin** | ***38.3%*** | | | | | | ***37.9%*** |
| Selling and marketing expenses | -30,311 | -920 | - | -304 | - | - | -31,535 |
| General and administrative expenses | -17,595 | - | - | -96 | - | - | -17,691 |
| Research and development expenses | -59,212 | - | - | -226 | - | 20,278 | -39,160 |
| Income from capitalization of development expenses | 20,278 | - | - | - | - | -20,278 | - |
| Other operating income | 2,174 | - | - | - | - | - | 2,174 |
| Other operating expenses | -678 | - | - | - | - | - | -678 |
| **Operating income** | **27,275** | **-2,001** | **-** | **-665** | **-** | **-** | **24,609** |
| **Operating margin** | ***9.3%*** | | | | | | ***8.4%*** |
| **Segment assets** | **460,125** | **13,439** | **68,831** | **-** | **-** | **-** | **542,395** |

Reconciliation of key performance measures to the consolidated financial 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** |

Additional information by geographical regions:

| (in thousands of EUR) | Q2 2021 | Q2 2020 | 6M 2021 | 6M 2020 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Germany | 39,085 | 34,456 | 84,285 | 53,932 |
| Rest of Europe, Middle East and Africa | 57,245 | 42,715 | 108,265 | 88,533 |
| Americas | 41,658 | 54,700 | 78,348 | 110,185 |
| Asia-Pacific | 11,366 | 13,153 | 22,929 | 25,060 |
| **Total revenues** | **149,354** | **145,024** | **293,827** | **277,710** |

| (in thousands of EUR) | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| **Non-current assets** | | |
| Germany | 131,908 | 131,682 |
| Rest of Europe, Middle East and Africa | 27,156 | 28,235 |
| Americas | 77,929 | 78,312 |
| Asia-Pacific | 3,869 | 4,341 |
| **Total non-current assets for segment reporting** | **240,862** | **242,570** |

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

In 6M 2021, two major customers exceeded 10% of total revenues (6M 2020: two major customers). In 6M 2021, the share of revenues allocated to major end customers was EUR 73,885 thousand (6M 2020: EUR 75,144 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.

(28) Other financial obligations and financial commitments

On June 30, 2021, the group had purchase commitments totaling EUR 115,577 thousand in respect to suppliers (December 31, 2020: EUR 57,128 thousand).

Group entities have issued guarantees in favor of customers. On June 30, 2021, performance bonds with a maximum guaranteed amount of EUR 312 thousand were issued (December 31, 2020: EUR 414 thousand). At the end of 6M 2021, ADVA does not expect claims from these guarantees.

(29) 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, 2021, 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.

(30) Stock option programs

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

| | Stock Option Program 2011<br>**Plan XIV** | Stock Option Program 2011 for the Management Board<br>**Plan XIVa** | Stock Option Program 2020 for the Management Board<br>**Plan XVIa** |
|---|---|---|---|
| **Options outstanding at Jan. 1, 2020** | **2,234,900** | **1,066,667** | **-** |
| Granted options | 107,500 | - | 100,000 |
| Exercised options | -49,726 | -265,000 | - |
| Forfeited options | -143,100 | - | - |
| Expired options | -3,674 | - | - |
| **Options outstanding at Dec. 31, 2020** | **2,145,900** | **801,667** | **100,000** |
| Granted options | 556,000 | 265,000 | - |
| Exercised options | -121,000 | -37,500 | - |
| Forfeited options | -28,000 | - | - |
| **Options outstanding at Jun. 30, 2021** | **2,552,900** | **1,029,167** | **100,000** |
| Of which exercisable | 528,400 | 439,167 | - |

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

| (in thousands of EUR) | **Q2 2021** | **Q2 2020** | **6M 2021** | **6M 2020** |
|---|---|---|---|---|
| Plan XIV | 286 | 231 | 517 | 490 |
| Plan XIVa | 76 | 74 | 120 | 183 |
| Plan XVIa | 14 | 4 | 27 | 4 |
| **Total** | **376** | **309** | **664** | **677** |

(31) Related party transactions

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. The investment company Teleios Capital Partners LLC, Zug, Switzerland, has reduced its share in ADVA SE to below 3% and is therefore no longer considered a related party.

On June 30, 2021, 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 2021 and 6M 2020, Saguna Networks Ltd. has not performed development services for the group.

In 6M 2021, ADVA acquired components with an amount of EUR 7 thousand from the EGORA group (6M 2020: EUR 2 thousand). In 6M 2021 and 6M 2020, 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 2021 and 6M 2020, these agreements were not utilized.

On June 30, 2021, trade accounts payable with an amount of EUR 2 thousand existed in respect to EGORA group (December 31, 2020: nil).

In 6M 2021, Harmonic Inc. acquired no products from ADVA (6M 2020: EUR 3 thousand). On June 30, 2021 no trade receivables existed in respect to Harmonic Inc. (December 31, 2020: nil).

ADVA entered a service agreement with Fraunhofer Heinrich Hertz Institute. In 6M 2021, ADVA did not acquire any services (6M 2020: nil). On June 30, 2021, no trade accounts payable existed in respect to Fraunhofer Heinrich Hertz Institute (December 31, 2020: nil).

In 6M 2021 ADVA sold products amounting to EUR 4 thousand to the Fraunhofer Heinrich Hertz Institute (6M 2020: EUR 120 thousand). On June 30, 2021, trade accounts receivables existed in respect to Fraunhofer Heinrich Hertz Institute amounting to EUR 4 thousand (December 31, 2020: nil).

On June 30, 2021 and December 31, 2020 no provision existed in respect to any related party.

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

See note (32) for detailed information about transactions with the management board and the supervisory board.

(32) 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, 2021 | Dec. 31, 2020 | Jun. 30, 2021 | Dec. 31, 2020 |
| Brian Protiva<br>Chief executive officer | 401,030 | 401,030 | 335,000 | 275,000 |
| Christoph Glingener<br>Chief technology officer & chief operating officer | - | - | 325,000 | 195,000 |
| Ulrich Dopfer<br>Chief financial officer | 500 | 500 | 219,167 | 181,667 |
| Scott St. John<br>Chief marketing & sales officer | - | - | 250,000 | 250,000 |

The options to members of the management board were granted out of Plan XIVa and Plan XVIa. The grants to two members of the management board under Plan XVIa in the financial year 2020 are accounted for as cash-settled share-based payments. A provision of EUR 62 thousand was recognized. The option rights authorize the management board to purchase the said number of common shares in the company once the qualifying period has elapsed. Both plans include a profit limit of EUR 20.00 per option.

The strike price for these option rights is

- EUR 5.15 for 37,500 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,
- EUR 10.00 for 265,000 options granted on May 15, 2021, respectively.

**Supervisory board**

On June 30, 2021, no shares or stock options were held by members of the supervisory board (December 31, 2020: none).

On June 30, 2021, trade accounts payable to the supervisory board for the pro rata compensation for Q2 2021 with an amount of EUR 59 thousand were recognized (December 31, 2020: EUR 59 thousand). The pay-out of these payables was carried out in July 2021 (January 2021).

(33) 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, 2021, or the group's and the company's financial performance for 6M 2021. Also, 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 20, 2021

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 20, 2021

Brian Protiva    Christoph Glingener

Ulrich Dopfer    Scott St. John

## FINANCIAL CALENDAR

| | |
|---|---|
| Hamburger Investorentag | August 25 - 26, 2021<br>Hamburg, Germany |
| Jefferies 2021 Semiconductor, IT Hardware and Communications Infrastructure Summit | August 31, 2021<br>Virtual event |
| Commerzbank Corporate Conference | September 2, 2021<br>Frankfurt, Germany |
| Equity Forum German Fall Conference 2021 | September 6 – 7, 2021<br>Virtual event |
| Berenberg & Goldman Sachs German Corporate Conference | September 20, 2021<br>Virtual event |
| Baader Investment Conference 2021 | September 22, 2021<br>Munich, Germany |
| Publication of quarterly statement 9M 2021 | October 21, 2021<br>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 materialize, 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. The global semiconductor crisis is impacting ADVA’s supply chain: supply lead times have strongly increased and despite of many mitigating activities ADVA’s lead times towards customers are increasing as well. Although potential future supply shortages are systematically identified, analyzed and pro-actively managed by supply chain management, the risk remains that ADVA may not be able to deliver all customers within satisfying time. With the spread of existing and new variants of Covid-19, new waves of infection breakouts are expected and the risk of sustaining the supply chain continues. 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. The risks and uncertainties as reported in the "risk and opportunity report" section of the Group Management Report 2020 remain unchanged.

# 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 liquidity/ (debt)** is calculated by subtracting total **financial debt** comprising of current and non-current financial liabilities and current and non-current lease liabilities from cash and cash equivalents.

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

### Corporate headquarters

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

t +49 89 89 06 65 0

### Registered head office

Maerzenquelle 1-3
98617 Meiningen-Dreissigacker
Germany

t +49 3693 450 0

### ADVA on the web

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

Steven Williams
Director Treasury & Investor Relations
Campus Martinsried
Fraunhoferstrasse 9a
82152 Martinsried/Munich
Germany

t + 49 89 89 06 65 918

investor-relations@adva.com