Explanatory Report of the management board of ADVA Optical Networking SE

to the information in the (group) annual report 2018 pursuant to sec. 289a (1) and sec. 315a (1) Commercial Code (Handelsgesetzbuch, HGB)

According to sec. 176 (1) (1) of the German Stock Corporation Act (Aktiengesetz, AktG) the management board is to make accessible to the general meeting an explanatory report on the information provided pursuant to section 289a (1) and section 315a (1) of the Commercial Code (HGB). The aforementioned provisions of the Commercial Code require stock corporations whose voting shares are admitted to stock market trading on an organized market to provide some additional information in the management report, e.g. on the composition of the subscribed capital, on any restrictions on voting rights and on participations in the capital exceeding 10% of the voting rights. For this information in the (group) management report, we hereby provide the following explanations:

Subscribed capital and shareholder structure

As of 31 March 2019, ADVA Optical Networking SE has issued 49,930,955 no-par bearer shares of common stock (31 March 2018: 49,735,549). During the reporting period, no other classes of shares were issued. All shares have the same rights and obligations. Each share grants one vote.

At the end of 2018, EGORA Holding GmbH held a total of 7,456,749 shares according to the notification of 30 November 2017 that was published on 8 December 2017 (at year-end 2017: 7,456,749 shares) or 14.93% of the share capital of ADVA Optical Networking SE (at year-end 2017: 14.99% of the share capital). According to this notification, 5,930,902 shares (at year-end 2017: 5,930,902 shares) or 11.88% of the issued shares (at year-end 2017: 11.92% of the issued shares) were held by EGORA Ventures GmbH, a wholly owned subsidiary of EGORA Holding GmbH, and the remaining 1,525,847 shares (at year-end 2017: 1,525,847 shares) or 3.06% of the issued shares (at year-end 2017: 3.07% of the issued shares) by EGORA Holding GmbH directly. Both EGORA companies are based in Fraunhoferstrasse 22 in 82152 Planegg-Martinsried, Germany. The notification was based on a stock of voting rights of 49,735,549 shares (31 December 2018: 49,930,955 shares).

Moreover, according to the notification published on 26 September 2018 dated 19 September 2018 of Mr. Igor Kuzniar (Teleios Capital Partners LLC), residing Baarerstrasse 12 in 6300 Zug, Switzerland, at the end of 2018 10,104,243 shares (at year-end 2017: 7,469,936 shares) or 20.25% of all ADVA Optical Networking SE shares outstanding (at year-end 2017: 15.02%). According to this notification, „3% or more of the voting rights" each were held by (i) Teleios Global Opportunities Master Fund Ltd.; (ii) Blackwell Partners LLC - Series E. This notification was based on a stock of voting rights of 49,897,049 shares (31 December 2018: 49,930,955 shares).

Teleios Global Opportunities Master Fund Ltd. based in Buckingham Square, 720 West Bay Road in Grand Cayman KY1-1104, Cayman Islands, itself previously notified the company – on 7 September 2018 –, that the fund itself had surpassed the 15% threshold in voting rights on 3 September 2018 and was holding directly 7,766,921 shares or 15.57% of the issued shares of ADVA Optical Networking SE; this notification was based on a stock of voting rights of 49,897,049 shares (31 December 2018: 49,930,955 shares).

No other shareholder has notified the company until the balance sheet date to hold more than 10% of the company's shares outstanding on December 31, 2018.

There are no classes of shares with special rights conferring control powers.
The company does not have an employee stock option program that provides for the direct issue of shares to employees. However, stock option and option bond programs enable employees to participate in the company's share capital.

Voting rights and stock transfer restrictions

Neither the voting rights per share nor the transferability of the shares of the company are subject to restrictions under company law. At the end of 2018, the ADVA Optical Networking SE management board was not aware of any shareholder agreements concerning the voting rights or the transfer of shares of the company.

Appointment and dismissal of the members of the management board

The appointment and dismissal of members of the management board of ADVA Optical Networking SE follows the direction of the German Stock Corporation Act (Aktiengesetz, AktG), the German SE Implementation Act (SE-Ausführungsgesetz, SEAG) as well as the provisions in section 6 of the company's current articles of association as of February 8, 2019. According to these articles, in principle the supervisory board appoints the members of the management board and does so for a maximum period of five years. However, it is the company's practice to appoint the members of the management board for two years only. Repeated appointment is possible. According to the company's articles of association, the management board of ADVA Optical Networking SE shall regularly consist of two individuals and the supervisory board shall have the right to determine and appoint a higher number of individuals. If the management board consists of more than one individual, the supervisory board may appoint one member of the management board chief executive officer or speaker of the management board, and another member his or her deputy. The supervisory board may recall an already-effective appointment for important reasons. In 2018, no appointments or dismissals of management board members were affected. ADVA Optical Networking SE's management board consisted of Brian Protiva (chief executive officer), Christoph Glingener (chief technology officer), Ulrich Dopfer (chief financial officer) and Scott St. John (chief marketing & sales officer) throughout the year.

Changes to articles of association

Amendments to the articles of association of ADVA Optical Networking SE are subject to the provisions of art. 59 SE-VO and section 179 AktG. According to art. 59 (1) SE-VO, amendments to the articles of association generally require a resolution of the general meeting passed by a majority of not less than two-thirds of the votes cast, unless the legislation for limited liability companies provides for or permits majorities. For amendments to the articles of association of an SE domiciled in Germany, pursuant to section 179 (2) sentence 1 AktG, a majority of at least three quarters of the share capital represented at the time of the resolution is required. In line with the SE Regulation, which always refers to the majority of the votes cast and not to capital majates (see Articles 57, 58 and 59 of the SE Regulation), the three-quarter majority requirement does not apply to the capital represented, but based on the votes cast. Changes to the articles of association must therefore be approved by the annual general meeting by a majority of at least three quarters of the votes cast.

The option of having the simple majority of votes for amendments to the articles of incorporation suffice by way of derogation if at least half of the share capital is represented (Article 59 (2) SE Regulation in conjunction with Section 51 sentence 1 SEAG) is not used by the articles of association of ADVA Optical Networking SE.

In addition, the provisions of section 4 (6) and section 13 (3) of the current articles of association of the company apply, whereby the supervisory board is authorized to resolve amendments to the articles of association. In particular, the supervisory board is authorized to amend the wording of the articles of association in accordance with the scope of the capital increases from authorized capital and the conditional capital taking effect.

Issuance and buy-back of shares

The rights of the management board to issue new shares are regulated in section 4 paragraphs 4 and 5k of the articles of association as of February 8, 2019, of ADVA Optical Networking SE. According to ADVA Optical Networking SE's current articles of association the management board is authorized with approval of the supervisory board to increase the capital stock by up to 24,048,215 new shares from authorized capital, amounting to a total of EUR 24,048,215 against cash or contribution in kind with possible exclusion of subscription rights (authorized capital 2015/I). As of December 31, 2018, the authorized capital amounted to EUR 24,048,215, so that at that time the management board have been capable of issuing up to 24,048,215 shares, commensurate to 48.16% of total shares outstanding..

In detail, the management board is initially authorized, in accordance with section 4 (4) of the current articles of association, to increase the capital stock until 19 May 2020 by issuing a total of up to 24,048,215 new no-par-value bearer shares (ordinary shares). against cash or in-kind contributions by up to EUR 24,048,215.00.

The management board is authorized, with the approval of the supervisory board, to exclude subscription rights in the case of capital increases against non-cash contributions, provided that the shares issued against cash or in-kind contributions during the term of this authorization do not exceed 20% of the share capital at the time of the effective date of the utilization of this authorization.

In the case of capital increases against cash contributions, the shareholders must in principle be granted a subscription right to the new shares.

However, the management board is authorized, with the approval of the supervisory board, to exclude shareholders' subscription rights in the event of capital increases against cash contributions, for the purpose of the introduction of the company's shares on a foreign stock exchange, including the allocation of the shares to a bank or several credit institutions, with the proviso that the new shares will be placed on the US capital market by means of American Depositary Receipts (ADR) as part of the initial launch of the company and, in connection with the aforementioned cases, also to cover an over-allotment option granted to the underwriters.

The management board is also authorized, with the approval of the supervisory board, to exclude the shareholders 'subscription rights in the event of capital increases against cash contributions, provided that the shares issued against cash or non-cash contributions during the term of this authorization excluding shareholders' subscription rights total 20% of the share capital neither at the time of the effective date nor at the time of the utilization of this authorization,

aa) if the subscription right is excluded in order to realize any peaks, or

bb) insofar as the exclusion of subscription rights for purpose of dilution protection is required in order to grant subscription rights to new shares to holders of conversion or option rights issued or to be issued by the Company or by companies in which the Company holds a direct or indirect majority as they are after exercise of conversion or option rights or after fulfillment of conversion obligations, or

cc) if the issue price of the new shares is not significantly lower than the stock exchange price and the shares issued in accordance with or pursuant to section 186 (3) sentence 4 of the German Stock Corporation Act against cash contributions excluding subscription rights during the term of this authorization do not exceed 10% of the share capital at the time of the effective date of this authorization. From the limitation to 10% of the share capital is to be offset:

- treasury shares that are sold during the term of this authorization in analogous application of section 186 (3) sentence 4 AktG under exclusion of shareholders' subscription rights, and

- shares issued or to be issued for the servicing of bonds with conversion or option rights if and insofar as the bonds are issued during the term of this authorization in analogous application of section 186 (3) sentence 4 AktG, excluding subscription rights.

The authorization of the management board to issue new shares from authorized capital enables the management board to meet capital requirements in a timely, flexible and cost-effective manner and to avail of attractive financing options, depending on the market situation. In particular, through the possibility of issuing new shares for the purpose of acquiring companies or equity interests in return for contributions in kind, excluding shareholders' subscription rights of up to 20% of the share capital, the company may make acquisitions without encumbering liquidity.

The authorization to exclude shareholders' subscription rights for the purpose of the introduction of the company's shares on a foreign stock exchange significantly increases the company's ability to absorb new equity. The placement of shares on foreign stock exchanges may open up access to new markets. Furthermore, a listing on foreign stock exchanges considerably increases the company's profile.

In addition, as of December 31, 2018, a conditional capital of EUR 4,973,554 was recorded in the commercial register (conditional capital 2011/I). The conditional capital can only be used for granting stock option rights to members of the management board, to employees of the company and to management and employees of affiliated companies. The conditional capital increase is put into effect only if, when and insofar the holders of the option rights exercise these rights. 195,406 new shares were already created in 2018 as a result of the exercise of stock options, but have been registered in the trade register after the balance sheet date. Thus, the number of shares that can be issued by the management board from the two tranches of conditional capital is reduced to 4,778,148 or 9.57% of the issued shares.

At year-end 2018, the management board was authorized to buy back up to a total of 10.0% of the existing share capital at the time of resolution by the annual general meeting or – if this value is lower – at the time the authorization will be exercised. This right was granted to the management board by a resolution of the shareholders' meeting on May 20, 2015 until May 19, 2020. Shares bought back may be used for all legally permitted purposes, in particular as consideration for the acquisition of companies, parts of companies or investments in companies, for issuing stock to employees of the company or affiliated companies, for serving share subscription rights from the company's stock option plans, and for redeeming the shares pursuant to the legal provisions

Takeover bid-driven change of control provisions

At year-end 2018, a bilateral loan with redemption value of nominally EUR 12.5 million (repayable in 16 equal quarterly installments since March 2017), a bilateral loan with redemption value of nominally EUR 5.0 million (repayable in 16 equal quarterly installments since March 2017), a bilateral loan with redemption value of nominally EUR 7.5 million (repayable in 12 equal quarterly installments since March 2018), and a syndicated loan with a redemption value of nominally EUR 65.0 million (repayable in half-yearly installments as well as a final installment on the due date from June 2019), respectively, are part of ADVA Optical Networking SE's financial liabilities. In addition, the syndicated loan has an undrawn credit line of EUR 10.0 million at the reporting date. In the event of a potential takeover bid-driven change in control of ADVA Optical Networking SE, the creditors have the right to terminate these loans with immediate effect.

As of December 31, 2018, for the event of a takeover bid-driven change in control there have been no recourse agreements in place with any of the members of the management board or with any of the group's employees.

Other mandatory disclosures

All employees participating in the capital of ADVA Optical Networking SE were able to exercise their control rights directly during the 2018 financial year.

Meiningen, in April 2019

ADVA Optical Networking SE
The management board

Brian Protiva

Ulrich Dopfer

Christoph Glingener

Scott St. John