Open edge networking

Quarterly statement

3M 2020

LETTER TO THE SHAREHOLDERS

Dear shareholders and business associates,

We are currently experiencing a crisis that is unprecedented in the history of the modern, industrialized world. Covid-19 knows no national borders, affects all continents and creates severe challenges for all of us. We see pictures every day and hear reports of how the world community is trying to fight and limit the effects of the coronavirus. We are part of this community and are doing our best to make a valuable contribution.

As a telecommunications supplier, our technologies and services are highly relevant to some of the world's most critical network infrastructures. From emergency communication to e-learning, from remote work to mobile communications, from media streaming to online gaming, our technology plays an important role. Securing the digital connection in times of social distancing and working from home is currently a high priority. ADVA took very early preventive measures to ensure the company remains fully operational in these extremely challenging times. And we did this while at the same time making the safety and health of our employees, partners and customers a top priority.

Network utilization is increasing

Over the past few weeks, providers of video conferencing solutions and cloud services have been reporting record usage. Remote working is practiced wherever possible, and school closures are leading to rapid adoption of e-learning techniques. The consumption of digital content is increasing, and both providers of cloud services and telecommunications service providers confirm significantly higher network utilization. Both customer groups are very important to us. We generate an average of three-quarters of our revenues with carriers and internet content providers. In the past quarter, orders from several major North American customers actually grew. We suspect, however, that this increase only partially reflects the actual growth in current demand, with a significant part serving as a safety buffer to prevent delivery and production bottlenecks that may arise.

From our large corporate customers who use our technology to build private enterprise networks as part of their IT infrastructure, we have observed the first signs of more careful ordering behavior. Many corporations have been directly affected by the drastic economic effects of the crisis, experienced severe slumps in orders, had to temporarily shut down plants, implemented short-time work or even reduced the headcount of their workforce. On average, private enterprise demand contributes about 25% to our sales. We expect this customer group to be more reluctant to make future-oriented investments in the coming weeks and months.

The focus is on production and supply chains

While demand developed well in the first quarter, our main focus is currently on maintaining our ability to deliver. At the beginning of the Covid-19 outbreak, we were one of the first companies to point out that Wuhan is a center for optoelectronic components and that supply bottlenecks were to be expected due to the curfews and plant closures. Since then, Wuhan and the rest of China are on the way back to normal, and we're quickly restoring production and supply chains. However, we have not yet passed the pandemic peak in other regions of the world. Every curfew, lockdown or closure of borders in the countries exposed to our supply chain, bears the risk of bottlenecks in component procurement, production, goods logistics, as well as in the ability to install and maintain our products at customer sites. Given the work restrictions and even if demand remains healthy, uncertainties will increase as to whether technicians will be able to implement new installations and system expansions in a timely manner.

ADVA has developed a very agile and flexible supply chain, and we are fortunate that our development and distribution centers have so far largely avoided the crisis. Our production and supply chains are largely intact. However, as already mentioned above, this can change suddenly. This is why we have developed a strategy that allows us to compensate for production and delivery bottlenecks due to possible location closures. Of course, we will continue to do everything we can to take advantage of our distributed and agile structures and reliably supply our customers. We will continue to act responsibly and protect the health of our employees and partners.

Financial flexibility and stability

The loss in the past quarter was high. Due to the Covid-19 pandemic we could not serve all orders in Q1 as planned and therefore not recognize the associated revenue. In addition, we had a strong revenue concentration around a few major customers with comparatively lower margins. Furthermore, there were additional expenses for securing our supply chain, and our cost-cutting programs of the past few months are only now beginning to have a positive impact. However, we are confident that we will return to profitability in the current quarter.

Finally, I want to emphasize ADVA's financial position and resilience. Our cash and cash equivalents are currently only slightly below the level of Q4 2019 and EUR 3.4 million above the previous year's quarter. Our net debt is still on target and improved by EUR 6.0 million when compared to the year-ago quarter and increased as expected by EUR 6.6 million when compared to the fourth quarter of 2019. Of course, we are reviewing aid programs that are available to us and will use every sensible measure to protect ourselves against all existing risks and further strengthen our balance sheet.

Outlook

Every crisis accelerates change and creates new opportunities. Perhaps the current emergency will soon result in noticeable improvements, such as a more environmentally friendly lifestyle, more solidarity, appreciation for social professions and the healthcare system, and the better use of digital tools. But, first of all, many people have great concerns about the health of their family, their income, their professional existence or their company. Saving lives and securing basic needs for peaceful coexistence must remain a top priority. Our industry is an essential pillar for maintaining communication and economic processes – both in the crisis and in the aftermath.

We will make our contribution to overcoming this crisis and continue to invest all our energy and creativity in innovative solutions for the benefit of our customers, shareholders and employees.

23. April 2020

Brian Protiva

Chief executive officer

IFRS FINANCIAL HIGHLIGHTS Q1 2020

Income statement

(in thousands of EUR, except earnings per share and ratios)	Q1 2020	Q1 2019	Change
Revenues	132,686	128,160	4%
Pro forma operating income (loss) *)	-1,671	2,748	n.a.
Pro forma operating margin in %	-1.3%	2.1%	-3.4pp
Operating income (loss)	-4,038	868	n.a.
Operating margin in %	-3.0%	0.7%	-3.7pp
Net income (loss)	-7,235	1,036	n.a.
Diluted earnings per share in EUR	-0.14	0.02	

Cash flow statement

(in thousands of EUR)	Q1 2020	Q1 2019	Change
Cash flow from operating activities	11,320	6,332	79%
Cash flow from investing activities	-17,499	-15,103	16%

Balance sheet and financial ratios

(in thousands of EUR)	Mar. 31, 2020	Dec. 31, 2019	Change
Liabilities to banks	87,912	80,979	9%
Leverage last-twelve-months *)	1.4	1.2	17%
Lease liabilities	32,545	34,430	-5%
Financial debt	120,457	115,409	4%
Cash and cash equivalents	-52,753	-54,263	-3%
Net debt *)	67,704	61,146	11%
Net working capital *)	134,219	128,150	5%
Equity	249,133	255,792	-3%
Equity ratio in %	48.4%	47.7%	0.7pp
Capital Employed *)	377,313	366,462	3%
ROCE in % *)	-4.3%	3.3%	-7.6pp

Employees

(at period end)	Mar. 31, 2020	Dec. 31, 2019	Change
	1,892	1,903	-1%

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

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

Business development and operational performance

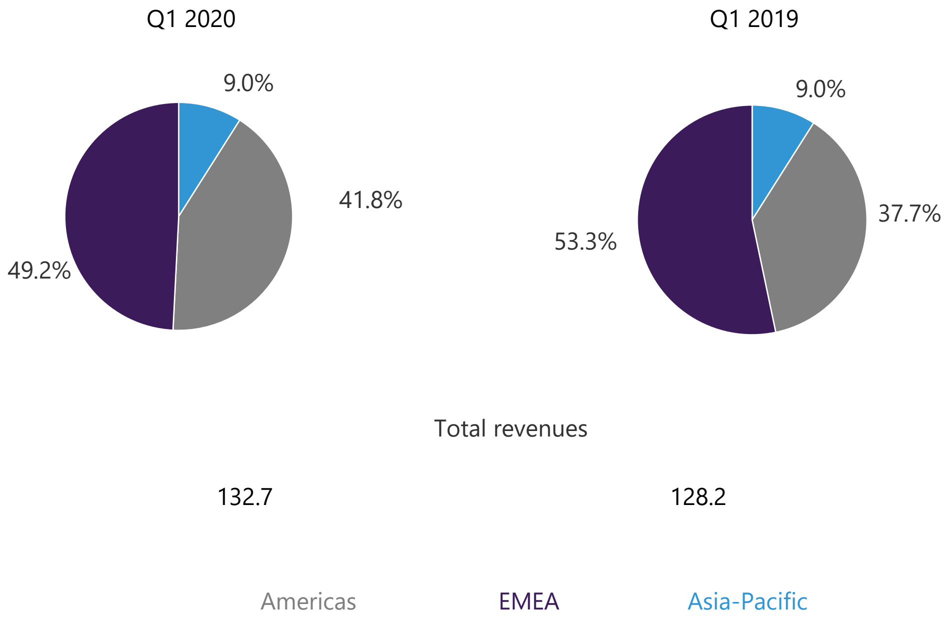
Revenues

Revenues represent one of the four key performance indicators for ADVA. The group's revenues in Q1 2020 amounted to EUR 132.7 million and were EUR 4.5 million or 3.5% above revenues of EUR 128.2 million in Q1 2019. Compared to revenues of EUR 151.1 million in Q4 2019, revenues in Q1 2020 decreased by 12.2%. The increase in sales compared to Q1 2019 is supported by all technologies and reflects the strong order intake at the end of 2019. The decline in revenues compared to the previous quarter is due to delivery bottlenecks caused by the Covid-19 lockdown measures, as well as a seasonal softness with a few customers, which is not uncommon for the first quarter.

In Q1 2020, EMEA (Europe, the Middle East and Africa) was once again the most important sales region, followed by Americas and Asia-Pacific. Year-on-year, sales in EMEA decreased to EUR 65.3 million in Q1 2020 compared to EUR 68.3 million in Q1 2019. The share of total sales fell to 49.2%. ADVA has a broad, loyal customer base in many countries throughout this region and is achieving very good results. The slight decline was primarily due to delays in the production and supply chain. Revenues in Americas increased by 14.9% from EUR 48.3 million in Q1 2019 to EUR 55.5 million in Q1 2020. There were above-average order and sales volumes, especially from a few major customers in this region. In the Asia-Pacific region, sales improved to EUR 11.9 million in Q1 2020 compared to EUR 11.6 million in Q1 2019. The region is still dominated by project-based business and there were no country-specific or customer-specific special effects.

Revenues by region

(in millions of EUR and relative to total revenues)



Results of operations

Cost of goods sold increased by EUR 7.2 million to EUR 91.2 million in Q1 2020 mainly due to the increase in revenues. In Q1 2020, cost of goods sold included EUR 9.4 million (Q1 2019: EUR 7.2 million) of amortization of capitalized development projects.

Gross profit decreased from EUR 44.2 million in Q1 2019 to EUR 41.5 million in Q1 2020, with gross margins also declining to 31.3% in Q1 2020 after 34.5% in Q1 2019. The decline in the gross margin in Q1 2020 compared to Q1 2019 results from a change in the customer and product mix as well as exchange rate factors.

ADVA's operating income declined significantly by EUR 4.9 million to a negative EUR 4.0 million in Q1 2020, mainly driven by lower gross margin and an increase in operating costs from EUR 43.3 million in Q1 2019 to EUR 45.6 million in the current quarter.

Within operating costs, sales and marketing expenses in Q1 2020 of EUR 17.4 million were slightly higher than the prior-year number of EUR 17.3 million in Q1 2019. They amounted to 13.1% and 13.5% of revenues and thus decreased compared to revenue development.

General and administrative expenses of EUR 8.6 million in Q1 2020 also slightly decreased from EUR 8.7 million in Q1 2019 and amounted to 6.5% and 6.8% of revenues, respectively.

At EUR 19.5 million in Q1 2020, R&D expenses were up compared to EUR 18.6 million seen in Q1 2019, comprising 14.7% and 14.5% of revenues, respectively. While gross R&D expenses increased to EUR 30.5 million in Q1 2020 compared to EUR 30.1 million reported in Q1 2019, income from capitalization of development expenses decreased from EUR 11.5 million in Q1 2019 to EUR 11.0 million in Q1 2020. The capitalization rate in Q1 2020 amounted to 36.1%, down from 38.2% reported in Q1 2019.

ADVA's research and development activities are driven by the distinct emphasis on differentiating its innovative connectivity solutions for cloud and mobile services and working with customers and partners to identify and meet their current and future needs. The resulting key technologies and products simplify complicated existing network structures and supplement existing solutions.

Pro forma operating income represents one of the four key performance indicators for ADVA. As pro forma operating income excludes non-cash charges related to stock compensation and business combinations as well as non-recurring expenses related to restructuring measures, the management board of ADVA believes that pro forma operating income is a more appropriate measure than operating income when benchmarking the group's operational performance against other telecommunications equipment providers. In Q1 2020, ADVA reported a pro forma operating loss of EUR 1.7 million after a pro forma operating income of EUR 2.7 million in Q1 2019, representing negative 1.3% and positive 2.1% of revenues, respectively.

Beyond the operating result net loss is impacted by net interest expenses of EUR 0.5 million (Q1 2019: EUR 0.4 million), which includes interest effects from lease accounting of EUR 0.3 million, each. Furthermore, net financial losses of EUR 1.3 million (Q1 2019: net financial gains of EUR 0,8 million) relating to the revaluation of foreign currency assets and liabilities and the result on hedging instruments, impacted the net loss in Q1 2020.

In Q1 2020, the group reported an income tax expense of EUR 1.4 million after an income tax expense of EUR 0.2 million in Q1 2019. In both periods income tax effects result from the application of the expected tax rate to the relevant income before tax of the respective entity of the ADVA group.

Summary: Business development and operational performance

In Q1 2020, ADVA reported increased revenues while gross margin at the same time declined. Due to the negative development of the operating result in Q1 2020 as well as the consideration of a negative financial result and an increased tax expense, ADVA shows a net loss of EUR 7.2 million in the current period after a net income of EUR 1.0 million in Q1 2019.

Net assets and financial position

Balance sheet structure

ADVA's total assets decreased by EUR 21.6 million from EUR 536.4 million at the end of 2019 to EUR 514.8 million at the end of March 2020 mainly due to the decline in inventories and trade accounts receivable.

At EUR 246.6 million at the end of Q1 2020, current assets were EUR 22.6 million lower than the corresponding figure of EUR 269.2 million at the end of 2019, accounting for 47.9% and 50.2% of the balance sheet total, respectively, at these reporting dates. The decrease in current assets was mainly driven by the decrease in inventories from EUR 105.4 million at December 31, 2019 to EUR 91.5 million at the end of Q1 2020, while inventory turns declined to 3.7 in Q1 2020 after 4.0 in 12M 2019. Moreover, trade accounts receivable decreased from EUR 96.2 million at the end of 2019 to EUR 88.2 million at the end of Q1 2020. The average days sales outstanding decreased from 66 days in 12M 2019 to 63 days in Q1 2020.

Non-current assets increased to EUR 268.2 million at the end of Q1 2020 from EUR 267.1 million at year-end 2019, mainly due to the increase of other intangible assets by EUR 2.7 million relating to the capitalization of software licenses for future periods. In addition, capitalized development projects increased by EUR 1.5 million. At the same time, both the rights of use assets from rental and leasing agreements in accordance with IFRS 16 decreased by EUR 1.9 million and the intangible assets from company acquisitions by EUR 1.0 million, particularly due to scheduled depreciation.

Meaningful additional assets belonging to ADVA are the broad and global customer base of several hundred service providers and thousands of enterprises, the ADVA brand, the vendor and partner relationships and a highly motivated and skilled global team. These assets are not included in the balance sheet. Customer satisfaction as measured by the Net Promoter Score represents one of the group’s four key performance indicators, highlighting the value of sustainable relationships with customers to ADVA. Further information on the development of the Net Promoter Score is presented in the Annual Report 2019.

On the equity and liabilities side, current liabilities decreased by EUR 21.8 million from EUR 159.1 million on December 31, 2019 to EUR 137.4 million on March 31, 2020. This decline is primarily due to significantly decreased trade accounts payable by EUR 27.9 million, from EUR 73.4 million reported at the end of December 2019 to EUR 45.5 million at the end of Q1 2020. In Q1 2020, days payables outstanding were at 59 days compared to 63 days in 12M 2019. The decrease in trade payables was mainly due to the termination of material purchases and partly also impacted by delivery bottlenecks caused by the Covid-19 lockdown measures. In addition, other current liabilities decreased by EUR 13.5 million to EUR 17.7 million at March 31, 2020, in particular due to the payment of variable compensation components for 2019 in Q1 2020. At the same time, current provisions increased by EUR 4.2 million for the current period, mainly as employees’ variable compensation entitlement for 2020 has been included on a pro rata basis. Current contract liabilities amounted to EUR 21.6 million as of March 31, 2020, compared to EUR 12.4 million at year-end 2019.

Non-current liabilities increased from EUR 121.4 million at the end of 2019 to EUR 128.4 million at the end of Q1 2020. The increase mainly results from the increase of non-current contract liabilities from EUR 7.1 million at year-end 2019 to EUR 13.4 million at the end of Q1 2020. In addition, deferred tax liabilities increased by EUR 1.2 million. Non-current lease liabilities amounted to EUR 26.6 million at the end of Q1 2020, down from EUR 28.3 million at the end of 2019.

Stockholders’ equity decreased from EUR 255.8 million reported on December 31, 2019, to EUR 249.1 million on March 31, 2020. The equity ratio was at 48.4% on March 31, 2020, after 47,7% on December 31, 2019, while the non-current assets ratio amounted to 92.9% and 95.8%, respectively, with stockholders’ equity largely covering the non-current assets.

Capital expenditures

Capital expenditures for additions to property, plant and equipment in Q1 2020 amounted to EUR 3.0 million, down from the EUR 3.5 million seen in Q1 2019.

Capital expenditures for intangible assets of EUR 14.5 million in Q1 2020 were strongly up from EUR 11.6 million in Q1 2019. This total consists of capitalized development projects of EUR 11.0 million in Q1 2020 after EUR 11.5 million in Q1 2019 and capital expenditures for other intangible assets of EUR 3.5 million in Q1 2020 after EUR 0.1 million in Q1 2019. The investments in other intangible assets include in particular the capitalization of software licenses.

Cash flow

Cash flow from operating activities was positive EUR 11.3 million in Q1 2020, after positive EUR 6.3 million in Q1 2019, and mainly relates to non-cash depreciation charges partly offset by net working capital changes in both periods. The increase in Q1 2020 is affected by lower cash outflows for net working capital when compared to the respective prior year period.

Cash flow from investing activities amounted to negative EUR 17.5 million in Q1 2020 after negative EUR 15.1 million in Q1 2019. The increased use of funds for investing activities is largely due to higher investment in capitalized development projects and other intangible assets.

Finally, net cash inflows of EUR 4.6 million were reported from financing activities in Q1 2020, after cash outflows of EUR 4.7 million from financing activities in Q1 2019. The cash inflow in Q1 2020 was due to the utilization of a credit line of EUR 10.0 million to ensure liquidity in the course of the Covid-19 crisis. This inflow was partially offset by scheduled repayments for existing liabilities. In Q1 2019, the outflows mainly resulted from scheduled servicing of existing liabilities to banks as well as reduction of lease liabilities.

Overall, including the net effect of foreign currency translation of positive EUR 0.1 million, cash and cash equivalents decreased by EUR 1.5 million, from EUR 54.3 million at the end of December 2019 to EUR 52.8 million on March 31, 2020. With the exception of local currency regulations for cash and cash equivalents in China amounting to EUR 5.6 million, there were no significant restrictions at the end of the quarter.

Financing and liquidity

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

Total financial debt increased by EUR 6.6 million to EUR 67.7 million at the end of Q1 2020. While the non-current portion of liabilities to banks remained fairly stable at EUR 61.8 million, the current portion of liabilities to banks increased to EUR 26.1 million at the end of March 2020 after EUR 19.2 million at the end of 2019 mainly due to the use of a credit line. In addition, current and non-current liabilities from leasing amounting to EUR 32.5 million and EUR 34.4 million, respectively, are included in financial debt at the end of Q1 2020 and at year-end 2019.

On March 31, 2020, the group had fully used all available committed borrowing facilities while at December 31, 2019 undrawn committed borrowing facilities amounted to EUR 10.0 million.

Net debt represents one of the four key performance indicators for ADVA. Mainly due to the increase in liabilities to banks explained above ADVA’s net debt increased from EUR 61.1 million at year-end 2019 to EUR 67.7 million at the end of March 2020. Cash and cash equivalents on March 31, 2020, and on December 31, 2019, were invested mainly in EUR, USD and GBP.

Return on capital employed in Q1 2020 was at negative 4.3%, significantly down from positive 3.3% reported in 12M 2019. This development is mainly due to the decline in operating result in Q1 2020.

Summary: Net assets and financial position

ADVA's net assets and financial position remained solid in Q1 2020 despite an increase in net debt. At the end of Q1 2020, current liabilities are fully covered by cash and cash equivalents and outstanding trade receivables. The equity ratio improved to 48.4% at the end of March 2020 compared to 47.7% at the end of 2019.

OUTLOOK

The outbreak of the Covid-19 pandemic has largely brought social life and economic processes to a standstill in many countries around the world. In this crisis, digital infrastructure and communication services are becoming increasingly important and network utilization among network operators and cloud providers is at elevated levels. But the telecommunications industry is also struggling with unprecedented uncertainty about the ultimate impact of the coronavirus. As a result, the uncertainties and business risks at ADVA have increased significantly since the last guidance on February 20, 2020.

The unprecedented disruption to everyday life will result in lower consumer spending and investment and could result in a weakening of demand for the company's customers' communications services. So far, orders at ADVA are still very good. Some of ADVA's major international customers have even placed larger than expected orders in Q1 2020.

The company's production and supply chains and the ability to install and commission equipment in customer networks are endangered in several areas. A regional lockdown in a country important to ADVA could significantly affect the company's business. As of today, there have been only temporary interruptions to the supply chain, which led to a backlog of customer deliveries in the first quarter. Without further external impairment the delivery backlog should, however, be largely balanced again in Q2. ADVA's agile and flexible procurement and supply chain has proven to be extremely helpful here.

Business development for the rest of 2020 depends heavily on when daily life returns to normal, but, above all, how quickly the global economy will recover from the crisis. In this context, economic experts have outlined three main scenarios:

Scenario 1: The crisis is relatively short-lived. In major economies, the peak of the Covid-19 pandemic will be reached in April and there is a prospect of a rapid recovery in the remaining three quarters. In this scenario, it is still possible to achieve the goals communicated in February.

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

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

In any case, the financing of ADVA's business activities is very solid. The management board has reviewed and prepared access to aid programs to support companies like ADVA during the possible downturn. Cost optimization programs, such as short-time work, are also available to the company to cushion scenarios 2 and 3. ADVA is well prepared, and the company's balance sheet stability and financial flexibility are assured in all scenarios.

Due to the current uncertainties about the further course of the crisis and its effects on ADVA's business, it is not possible to reliably assess which scenario is most likely. Therefore, the management board has concluded that the guidance of February 20, 2020, outlined in the 2019 annual report cannot be upheld and therefore withdraws the previous outlook for the 2020 financial year. Originally, the company had anticipated increasing revenues to more than EUR 580 million with an increased pro forma operating income above 5% of revenues. Additionally, the management board expected an improvement in net debt in the single-digit percentage range and a net promoter score of at least 40%.

The group will continue to selectively invest in product development, technology and sales-increasing measures while maintaining cost management. However, since the duration and economic implications of the pandemic cannot be reliably predicted, the specific effects on sales and earnings for the 2020 financial year cannot be reliably estimated or quantified more precisely. The group's main risks are explained in the "risk and opportunity report" section of the 2019 annual report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF MARCH 31, 2020 (UNAUDITED)

(in thousands of EUR)	Mar. 31, 2020	Dec. 31, 2019
Assets		
Current assets		
Cash and cash equivalents	52,753	54,263
Trade accounts receivable	88,171	96,193
Contract assets	636	654
Inventories	91,500	105,355
Tax assets	1,864	1,857
Other current assets	11,686	10,918
Total current assets	**246,610**	**269,240**
Non-current assets		
Right-of-use assets	30,133	31,985
Property, plant and equipment	31,830	32,622
Goodwill	72,649	72,023
Capitalized development projects	97,629	96,169
Intangible assets acquired in business combinations	19,880	20,864
Other intangible assets	6,450	3,704
Deferred tax asset	6,314	6,336
Other non-current assets	3,277	3,419
Total non-current assets	**268,162**	**267,122**
Total assets	**514,772**	**536,362**

(in thousands of EUR)	Mar. 31, 2020	Dec. 31, 2019
Equity and liabilities		
Current liabilities		
Lease liabilities	5,909	6,082
Liabilities to banks	26,102	19,221
Trade accounts payable	45,452	73,398
Other provisions	18,670	14,379
Tax liabilities	1,460	1,686
Contract liabilities	21,561	12,448
Refund liabilities	496	709
Other current liabilities	17,719	31,217
Total current liabilities	**137,369**	**159,140**
Non-current liabilities		
Lease liabilities	26,637	28,348
Liabilities to banks	61,810	61,758
Provisions for pensions and similar employee benefits	8,111	7,756
Other provisions	1,505	1,380
Deferred tax liabilities	13,518	12,307
Contract liabilities	13,369	7,070
Other non-current liabilities	3,320	2,811
Total non-current liabilities	**128,270**	**121,430**
Total liabilities	**265,639**	**280,570**
Stockholders’ equity entitled to the owners of the parent company		
Share capital (Conditional capital EUR 4,742 thousand; prior year EUR 4,742 thousand)	50,182	50,182
Capital reserve	318,936	318,568
Accumulated deficit	-114,648	-121,693
Net income (loss)	-7,235	7,045
Accumulated other comprehensive income	1,898	1,690
Total stockholders’ equity	**249,133**	**255,792**
Total equity and liabilities	**514,772**	**536,362**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM JANUARY 1 TO MARCH 31, 2020 (UNAUDITED)

(in thousands of EUR, except earnings per share and number of shares)	**Q1 2020**	**Q1 2019**
Revenues	**132,686**	**128,160**
Cost of goods sold	-91,162	-83,950
Gross profit	**41,524**	**44,210**
Selling and marketing expenses	-17,440	-17,273
Thereof net impairment results on financial assets	*900*	*73*
General and administrative expenses	-8,621	-8,715
Research and development expenses	-19,489	-18,590
Other operating income	1,169	1,338
Other operating expenses	-1,181	-102
Operating income (loss)	**-4,038**	**868**
Interest income	25	248
Interest expenses	-574	-663
Currency translation gains and losses, net	-1,258	784
Income (loss) before tax	**-5,845**	**1,237**
Income tax (expense) benefit, net	-1,390	-201
Net income (loss) entitled to the owners of the parent company	**-7,235**	**1,036**
Earnings per share in EUR		
basic	-0.14	0.02
diluted	-0.14	0.02
Weighted average number of shares for calculation of earnings per share		
basic	50,181,966	49,930,955
diluted	50,181,966	50,597,492

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CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

(in thousands of EUR)	Q1 2020	Q1 2019
Cash flow from operating activities		
Income (loss) before tax	-5,845	1,237
Adjustments to reconcile income/(loss) before tax to net cash provided by operating activities		
Non-cash adjustments		
Amortization of non-current assets	16,383	14,081
Loss from disposal of property, plant and equipment and intangible assets	164	37
Stock compensation expenses	368	465
Other non-cash expenses	330	79
Foreign currency exchange differences	71	107
Changes in assets and liabilities		
Decrease (increase) in trade accounts receivable	8,040	-1,461
Decrease (increase) in inventories	13,855	1,157
Decrease (increase) in other assets	-651	-2,066
Increase (decrease) in trade accounts payable	-27,946	-11,229
Increase (decrease) in provisions	4,408	5,884
Increase (decrease) in other liabilities	2,457	-1,951
Income tax paid	-314	-8
Net cash provided by operating activities	**11,320**	**6,332**
Cash flow from investing activities		
Investments in property, plant and equipment	-3,008	-3,517
Investments in intangible assets	-14,516	-11,635
Interest received	25	49
Net cash used for investing activities	**-17,499**	**-15,103**
Cash flow from financing activities		
Decrease of lease liabilities	-1,778	-857
Payments received from liabilities to banks	10,000	-
Cash repayment of liabilities to banks	-3,125	-3,125
Interest paid	-514	-684
Net cash used in (provided by) financing activities	**4,583**	**-4,666**
Net effect of foreign currency translation on cash and cash equivalents	86	108
Net change in cash and cash equivalents	**-1,510**	**-13,329**
Cash and cash equivalents at the beginning of the period	54,263	62,652
Cash and cash equivalents at the end of the period	**52,753**	**49,323**

FINANCIAL CALENDAR

Annual Shareholders' Meeting	May 13, 2020 Meiningen, Germany
Publication of Six-Month-Report	July 23, 2020 Martinsried/Munich, Germany
Berenberg & Goldman Sachs 9th German Corporate Conference	September 21, 2020 Munich, Germany
Family Office Day	September 29, 2020 Vienna, Austria
CIC Market Solutions Forum	November 09-10, 2020 Paris, France
Deutsches Eigenkapitalforum 2020	November 16-18, 2020 Frankfurt, Germany
All dates may be affected by restrictions put in place in response to Covid-19, and so none can be guaranteed.	

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements using words such as "believes", "anticipates" and "expects" to describe expected revenues and earnings, anticipated demand for optical networking solutions, internal estimates and liquidity. These forward-looking statements are based on the beliefs of the management board and respective assumptions made, and involve a number of unknown risks, uncertainties and other factors, many of which are beyond ADVA's control. If one or more of these uncertainties or risks materializes, or if the underlying assumptions of the management board prove incorrect, actual results can differ materially from those described in or inferred from forward-looking statements and information. With the global spread of the Covid-19 pandemic, the risk of sustaining the supply chain increased. There are three scenarios that can lead into an inability to supply: the possible closure of one of our production and / or distribution sites due to an occurring virus infection, a supply chain constraint with one or more of our contract manufacturers, or a governmental ordered lockdown within our important production sites. Furthermore, we see a new risk due to a recession driven decline in demand, as well as an increased risk of default. All other risks and uncertainties remain unchanged and are explained in the "risk and opportunity report" section of the Group Management Report 2019.

GLOSSARY

Pro forma operating income is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, non-recurring expenses related to restructuring measures are not included.

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

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

The **Net Promoter Score** is obtained by asking customers a single question on a 0 to 10 rating scale: "How likely is it that you would recommend our company to a friend or colleague?" Based on their responses, customers are categorized into one of three groups: promoters (9-10 rating), passives (7-8 rating), and detractors (0-6 rating). The percentage of detractors is then subtracted from the percentage of promoters to obtain a Net Promoter Score.

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

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

IMPRESSUM

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ADVA on the web

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

PDF files of this quarterly report, as well as previous quarterly and annual reports, presentations and general investor information, are also located on the company's website and can be downloaded in both English and German. Quarterly conference calls are conducted on the day of earnings announcements. Related PDF, audio and transcript files are available for download in the investor relations section of the company's website, www.adva.com.

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