Quarterly statement 9M 2022

Open edge networking

Letter to the shareholders

Dear shareholders and business associates,

It’s been an extremely eventful third quarter, and we‘re very proud of what we’ve been able to achieve. Never in our company's history have we delivered more products or generated higher revenues in a single quarter. This record quarter comes at a time when our business environment is becoming increasingly chaotic and less predictable. Supply shortages, the pandemic, inflation, the energy crisis, currency fluctuations, political tensions, etc.. The list of challenges is getting longer, and the speed with which we have to respond to changes is increasing. Despite this, we’re proud to have delivered very strong results. First and foremost, I want to thank our employees for this. Their tireless commitment, creativity and unconditional willingness to make the impossible possible were key to delivering this great result.

The supply chain rollercoaster ride continues

The latest developments in our macro environment can best be described as a rollercoaster ride. In 2019, political tensions and trade conflicts were starting to disrupt our well-established supply chains and required a realignment of production and logistics. Subsequently, the Covid pandemic led to further dislocation, production stoppages and disruptive fluctuations in supply and demand, especially in the semiconductor market. Currently, the number of different components that are difficult to procure is decreasing, but it’s becoming increasingly challenging to find solutions for the remaining components. A not insignificant part of our expenditure in product development is therefore aimed at redesigning existing equipment technology to provide the same functionality based on more readily available components.

Demand remains at record levels

On the positive side, demand remains very strong. Digitization efforts, especially in the Western world, have increased significantly since 2020, and are running at full speed. In many countries, support programs worth billions have been launched to drive forward the expansion of communications infrastructure. This is bringing new network operators onto the market who are participating in this boom, especially in the development of rural regions. Furthermore the issue of security when selecting technology and manufacturers has also changed the market dynamics. This is good news for Western suppliers of optical networking technology, both in the local loop (fiber-to-the-home) and for metro and wide-area infrastructure. The conditions that are conducive to investment will continue to provide us with a healthy demand environment for the foreseeable future.

Launch of Adva Network Security

We launched Adva Network Security (“ANS”) on October 1, 2022, specifically to serve the increasing requirements for secure network infrastructure. The new legal entity specializes in secure transmission technology to protect highly sensitive communication networks from cyber attacks. The standalone company will complement ADVA's market-leading portfolio with proven and approved security mechanisms to protect wide area networks and critical infrastructure. Adva Network Security will develop, manufacture and integrate encryption technologies into networks that can withstand increasingly sophisticated attack scenarios. The company has its own IT infrastructure with a secure data center in Germany and will cooperate with national security authorities to ensure comprehensive protection of networks. This will also meet the most stringent requirements of organizations with high-security needs, as sensitive data is protected even against attacks by quantum computers. We expect this to be particularly relevant in government projects.

Tight cost situation, strong balance sheet

While our order backlog is at record levels and order intake continues to develop positively, the challenges on the cost side remain. To ensure our ability to continue to deliver, we’re increasing our inventories and purchasing components at an early stage, in some cases at significantly higher costs. In addition, higher energy prices are impacting transportation, production and general operating costs. Strong inflation is adding to the pressure, and exchange rates are also developing to our disadvantage. Nevertheless, with a pro forma EBIT of 6.5% of revenues, we’re operating at a good level. We were also able to keep our liquidity largely stable despite higher inventories, and we have sufficient financial resources to meet the current challenges.

Merger with Adtran proceeding according to plan

As we outlined in our six-month report, Adtran Holdings, Inc. formerly known as Acorn HoldCo, Inc. is now the majority shareholder of ADVA. Adtran is seeking a domination agreement or control and profit and loss transfer agreement. The management board of ADVA Optical Networking SE and the board of directors of Adtran Holdings, Inc. ("Adtran Holdings") have prepared the final draft of a domination and profit and loss transfer agreement with ADVA as the controlled company and Adtran Holdings as the controlling company on October 18. This domination and profit and loss transfer agreement requires, on the one hand, the approval of the Extraordinary General Meeting of ADVA, which is to resolve on the approval of the agreement on November 30, 2022, and also registration in the commercial register. The supervisory board of ADVA also approved the draft agreement on October 18. This fact was also communicated to the public in the form of an ad hoc announcement on October 18. We have thus taken another step forward in creating a company with revenues well in excess of one billion euros, and thus becoming one of the major players in the industry. There is a great need for investment around the so-called network edge, and together with Adtran we will have a leading technology portfolio.

Changes in the supervisory board

Our long-time chairman of the supervisory board, Nikos Theodosopoulos, resigned from his position as chairman and member of the supervisory board as of August 4, 2022, and joined the board of Adtran Holdings. On September 14, by resolution of the Jena Local Court, Frank Fischer, tax advisor and lawyer, was appointed as a new member of the supervisory board. Subsequently, Johanna Hey was appointed as the new chairwoman of the supervisory board of ADVA and Frank Fischer as her deputy. Mike Aquino resigned as a member of the supervisory board and Eduard Scheiterer, by resolution of the Jena Local Court, was appointed on 5 October. We thank Nikos and Mike for their support and services to our company and look forward to working with Frank and Eduard.

Outlook

After nine months, our 2022 revenues continue to be at record levels. Our order books are well-filled and we're working tirelessly to find solutions to maintain or even expand our ability to deliver. The already high complexity in procurement, production and logistics is further increased by rising energy costs, inflation and strong currency fluctuations. We're facing up to all these challenges. Our teams are working closely with our customers on a daily basis to provide them with the best possible support for their network expansion. We're in a unique investment cycle that is driving the rollout of a secure, digital communications infrastructure based on optical fiber. Demand for optical transmission technology remains high. As a company, we will participate strongly in this as we move into a new era. Together with Adtran, we will create a global leader in open and scalable communications technology focused on the network edge. The merger combines Adtran's global leadership in residential fiber-to-the-home and local loop access solutions with ADVA's global leadership in data center interconnection solutions for large enterprises, business Ethernet and fiber-to-the-building, metro WDM, and network synchronization. The combined portfolio can best address current and future requirements, especially with regard to the convergence of solutions at the network edge. We will create a company with annual revenues of well over a billion US dollars and an annual development budget of close to a quarter of a billion US dollars that will permanently change the industry.

Finally, I would like to thank one more time our dedicated employees for their consistent and valuable performance, especially in these challenging times. We will continue to invest all our energy and creativity in innovative solutions for the benefit of our customers, shareholders and employees.

Stay healthy!

November 7, 2022

Christoph Glingener

Chief executive officer

IFRS financial highlights 9M 2022

Income statement

(in thousands of EUR, except earnings per share and ratios)	Q3 2022	Q3 2021	Change	9M 2022	9M 2021	Change
Revenues	179,597	151,777	18 %	516,415	445,604	16 %
Pro forma EBIT *)	11,732	13,012	(10)%	25,979	40,287	(36)%
Pro forma EBIT margin in %	6.5	8.6	(2) pp	5.0	9.0	(4) pp
Operating income (loss)	(7,322)	9,496	(177)%	3,309	34,105	(90)%
Operating margin in %	(4.1)	6.3	(10,3) pp	0.6	7.6	(7) pp
Net income (loss)	881	18,478	(95)%	14,351	41,707	(66)%
Diluted earnings per share in EUR	0.02	0.36	(94)%	0.28	0.81	(65)%

Cash flow statement

(in thousands of EUR)	Q3 2022	Q3 2021	Change	9M 2022	9M 2021	Change
Cash flow from operating activities	624	28,399	(98)%	(5,567)	87,527	(106)%
Cash flow from investing activities	(17,602)	(15,071)	17 %	(52,250)	(44,526)	17 %

Balance sheet and financial ratios

(in thousands of EUR, except ratios)	Sep. 30, 2022	Dec. 31, 2021	Change
Liabilities to banks	55,386	47,807	16 %
Lease liabilities	23,429	25,014	(6)%
Financial debt	**78,815**	**72,821**	**8 %**
Cash and cash equivalents	61,381	108,987	(44)%
Net cash (debt) *)	**(17,434)**	**36,166**	**(148)%**
Leverage *)	0.7 x	0.4 x	75 %
Net working capital *)	193,808	128,954	50 %
Working capital ratio in % *)	28.1	21.4	6.7 pp
Equity	371,761	339,912	9 %
Equity ratio in %	56.0	56.5	(0.5) pp
Capital employed *)	410,966	388,598	6 %
ROCE in % *)	3.5	11.7	(8.2) pp

Employees

(at period end)	Sep. 30, 2022	Dec. 31, 2021	Change
	2,024	1,973	3 %

*) 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

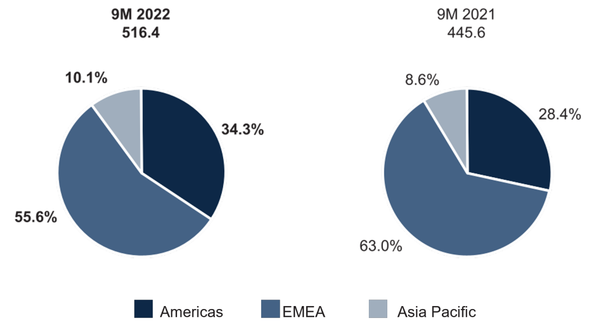
Revenues represent one of the four key performance indicators for ADVA. The group's revenues in 9M 2022 amounted to EUR 516.4 million and were EUR 70.8 million or 15.9 % above revenues of EUR 445.6 million in 9M 2021. Compared to revenues of EUR 166.3 million in Q2 2022, revenues in Q3 2022 increased by 8.0 % to EUR 179.6 million. The increase in revenues compared to 9M 2021 as well as the previous quarter was attributable to higher revenue from both network operators and ICPs.

In 9M 2022, EMEA (Europe, the Middle East and Africa) was once again the largest contributing sales region, followed by Americas and Asia-Pacific.

Year-on-year, sales in EMEA increased to EUR 287.2 million in 9M 2022 compared to EUR 280.7 million in 9M 2021 and represented 55.6% of total revenues in 9M 2022 after 63.0 % in the prior-year period. ADVA has a broad, loyal customer base in many countries throughout this region and is achieving very good results. Demand was seen across all customer groups.

Revenues in Americas significantly increased by 40.0% from EUR 126.6 million in 9M 2021 to EUR 177.2 million in 9M 2022. The significant increase compared to the prior-year period is particularly due to strong demand from network operators and ICPs in addition to the appreciation of the US dollar against the euro.

In Asia-Pacific, revenue also considerably increased by 35.8% from EUR 38.3 million in 9M 2021 to EUR 52.0 million in 9M 2022. Demand was primarily driven by increased business with network operators.



Results of operations

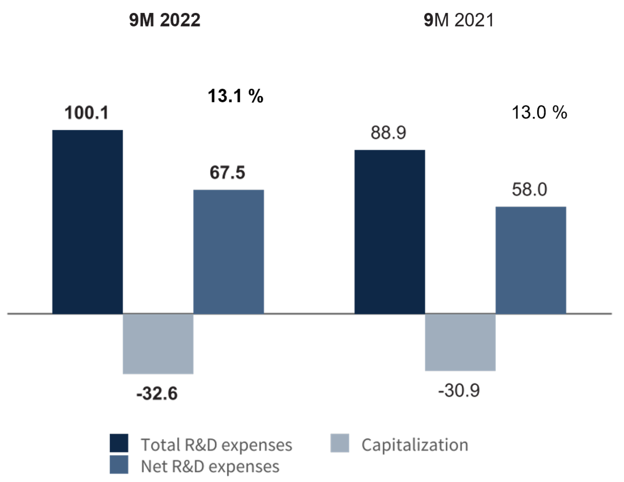
(in millions of EUR, except earnings per share)	9M 2022	Portion of revenues	9M 2021	Portion of revenues
Revenues	**516.4**	**100.0 %**	**445.6**	**100.0 %**
Cost of goods sold	(349.2)	67.6 %	(282.5)	63.4 %
Gross profit	**167.2**	**32.4 %**	**163.1**	**36.6 %**
Selling and marketing expenses	(54.7)	10.6 %	(46.4)	10.4 %
General and administrative expenses	(46.8)	9.1 %	(27.7)	6.2 %
Research and development expenses	(67.5)	13.1 %	(58.0)	13.0 %
Other operating income and expense, net	5.1	1.0 %	3.1	0.7 %
Operating income (loss)	**3.3**	**0.6 %**	**34.1**	**7.6 %**
Interset income and expenses, net	(1.3)	0.3 %	(1.3)	0.3 %
Financial gains and losses, net	8.9	1.7 %	1.2	0.3 %
Income (loss) before tax	**10.9**	**2.1 %**	**34.0**	**7.6 %**
Income tax benefit (expense), net	3.5	0.7 %	7.7	1.7 %
Net income (loss)	**14.3**	**2.8 %**	**41.7**	**9.3 %**
Earnings per share in EUR				
basic	0.28		0.82	
diluted	0.28		0.81	

Cost of goods sold strongly increased by EUR 66.7 million to EUR 349.2 million in 9M 2022. In 9M 2022, cost of goods sold included EUR 31.9 million (9M 2021: EUR 32.0 million) of amortization of capitalized development projects.

Gross profit increased from EUR 163.1 million in 9M 2021 to EUR 167.2 million in 9M 2022, with gross margin at 32.4 % in 9M 2022 below the 36.6 % reported in 9M 2021. The decrease in the gross margin in 9M 2022 compared to 9M 2021 in particular results from increased material and freight costs in connection with the currently existing supply bottlenecks, especially in the semiconductor industry.

Within operating costs, sales and marketing expenses in 9M 2022 of EUR 54.7 million were above the prior-year number of EUR 46.4 million in 9M 2021. They amounted to 10.6 % and 10.4 % of revenues, respectively. The increase results in particular from higher personnel expenses due to the positive development in revenues and order intake.

General and administrative expenses of EUR 46.8 million in 9M 2022 significantly increased compared to EUR 27.7 million in 9M 2021 and amounted to 9.1 % and 6.2 % of revenues, respectively. The increase in general and administrative expenses is mainly due to one-time merger related external service cost.



At EUR 67.5 million in 9M 2022, R&D expenses were clearly above the EUR 58.0 million seen in 9M 2021, comprising 13.1 % and 13.0 % of revenues, respectively. Gross R&D expenses increased to EUR 100.1 million in 9M 2022 compared to EUR 88.9 million reported in 9M 2021, and income from capitalization of development expenses increased from EUR 30.9 million in 9M 2021 to EUR 32.6 million in 9M 2022. The capitalization rate in 9M 2022 amounted to 32.6 %, down from 34.8 % reported in 9M 2021.

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 decreased significantly from EUR 34.1 million in 9M 2021 to EUR 3.3 million in 9M 2022. In the current quarter, the increase in revenues was offset in particular by a substantial rise in the cost of goods sold and operating expenses.

Pro forma EBIT represents one of the four key performance indicators for ADVA. As pro forma EBIT excludes non-cash charges related to stock compensation and business combinations as well as non-recurring expenses related to M&A transactions and restructuring measures. The management board of ADVA believes that pro forma EBIT is a more appropriate measure than operating income when benchmarking the group's operational performance against other telecommunications equipment providers. In 9M 2022, ADVA reported a pro forma EBIT of EUR 26.0 million after a pro forma EBIT of EUR 40.3 million in 9M 2021, representing 5.0 % after 9.0 % of revenues, respectively.

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

(in millions of EUR)	9M 2022	9M 2021
Operating income (loss)	**3.3**	**34.1**
Expenses related to share-based compensation	1.8	1.1
Amortization of intangible assets from business combinations	2.8	3.0
Expenses related to M&A transactions	18.0	2.1
Pro forma EBIT	**26.0**	**40.3**

Beyond the operating result net income in 9M 2022 is impacted by net interest expenses of EUR 1.3 million (9M 2021: EUR 1.3 million), which includes interest effects from lease accounting of EUR 0.6 million (9M 2021: EUR 0.8 million). Furthermore, net financial gains of EUR 8.9 million (9M 2021: net financial gains of EUR 1.2 million) relating to the revaluation of foreign currency assets and liabilities and the result on hedging instruments, impacted the net income in 9M 2022.

In 9M 2022, the group reported an income tax benefit of EUR 3.5 million after an income tax benefit of EUR 7.7 million in 9M 2021. 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.

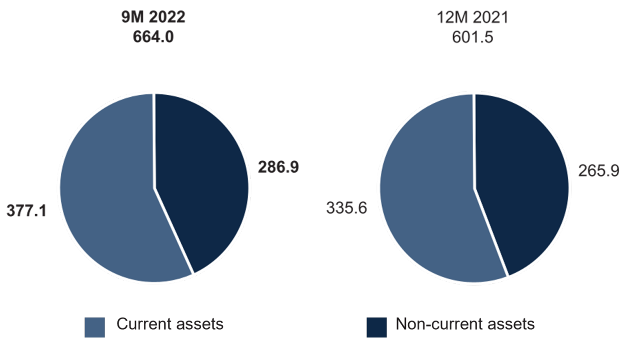
Summary: Business development and operational performance

In 9M 2022, ADVA recorded a significant increase in revenues compared to the previous year with a decreased gross margin at the same time. Due to the significantly lower operating result ADVA reports a substantial decline of net income from EUR 41.7 million in 9M 2021 compared to EUR 14.3 million in the current period.

Net assets and financial position

Balance sheet structure

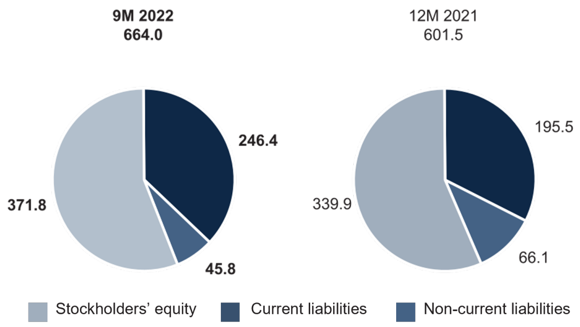
ADVA's total assets increased by EUR 62.5 million from EUR 601.5 million at the end of 2021 to EUR 664.1 million at the end of September 2022.



Current assets amounted to EUR 377.1 million at the end of 9M 2022, EUR 41.5 million higher than the corresponding figure of EUR 335.6 million at the end of 2021 and accounted for 56.8 % and 55.8 % of total assets at these reporting dates, respectively. The increase in current assets was mainly driven by the significant increase in inventories from EUR 129.2 million on December 31, 2021 to EUR 178.0 million at the end of 9M 2022. In 9M 2022 inventory turns declined to 3.1 x compared to the value of 3.8 x in 12M 2021. In addition, trade receivables increased significantly from EUR 83.0 million on December 31, 2021 to EUR 115.3 million at the end of 9M 2022 due to the increase in revenues. DSOs were unchanged at 53 days in 9M 2022 and in 12M 2021. At the same time, cash and cash equivalents significantly decreased to EUR 61.4 million. This results in particular from the decline in cash flow from operating activities presented in the cash flow section.

Non-current assets increased to EUR 286.9 million at the end of 9M 2022 from EUR 265.9 million at year-end 2021. The increase in non-current assets was in particular due to a EUR 8.8 million increase in goodwill due to exchange rate effects. In addition, deferred tax assets increased significantly by EUR 7.2 million and other intangible assets by EUR 5.8.

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 2021.



On the equity and liabilities side, current liabilities increased strongly by EUR 50.9 million from EUR 195.5 million on December 31, 2021 to EUR 246.4 million on Sept. 30, 2022. This increase in mainly due to significantly higher current liabilities to banks. These amounted to EUR 55.4 million at the end of 9M 2022, EUR 30.1 million above the EUR 25.3 million reported at the end of December 2021. The increase is due to a reclassification from non-current liabilities to banks, as the corresponding loan will be repaid completely in the next twelve months as scheduled. Furthermore, trade payables increased by EUR 16.3 million to EUR 99.5 million as of Sept. 30, 2022. In 9M 2022, DPOs amounted to 66 days compared to 58 days in 12M 2021. In addition, current provisions increased significantly by EUR 15.1 million, in particular due to the pro rata recognition of variable employee compensation components for the current financial year. At the same time, other current liabilities decreased significantly by EUR 13.1 million to EUR 27.0 million as of Sept. 30, 2022, in particular due to the payment of variable employee compensation components for 2021 in 9M 2022. Current contract liabilities amounted to EUR 22.9 million as of Sept. 30, 2022, compared to EUR 18.8 million reported at year-end 2021.

Non-current liabilities of EUR 45.9 million at the end of 9M 2022 decreased significantly from the EUR 66.1 million reported at the end of 2021.

Stockholders' equity increased from EUR 339.9 million reported on December 31, 2021, to EUR 371.8 million on Sept. 30, 2022. The equity ratio was at 56.0 % on Sept. 30, 2022, after 56.5 % on December 31, 2021, while the non-current assets ratio amounted to 129.6 % and 127.8 %, respectively, with stockholders' equity fully covering the non-current assets.

Capital expenditures

Capital expenditures for additions to property, plant and equipment in 9M 2022 amounted to EUR 12.2 million, strongly up from the EUR 9.9 million seen in 9M 2021.

Capital expenditures for intangible assets of EUR 40.0 million in 9M 2022 were up from EUR 34.6 million in 9M 2021. This total consists of capitalized development projects of EUR 32.6 million in 9M 2022 after EUR 30.9 million in 9M 2021 and capital expenditures for other intangible assets of EUR 7.5 million in 9M 2022 after EUR 3.7 million in 9M 2021. The investments in other intangible assets include in particular the capitalization of a joint development.

Cashflow

(in millions of EUR)	9M 2022	Portion of cash	9M 2021	Portion of cash
Operating cash flow	(5.6)	(9.1)%	87.5	87.1 %
Investing cash flow	(52.3)	(85.1)%	(44.5)	(44.3)%
Financing cash flow	7.3	11.9 %	(7.7)	(7.7)%
Net effect of foreign currency translation on cash and cash equivalents	2.9	4.7 %	0.4	0.4 %
Net change in cash and cash equivalents	**(47.6)**	**(77.6)%**	**35.6**	**35.5 %**
Cash and cash equivalents at the beginning of the period	109.0	177.6 %	64.9	64.5 %
Cash and cash equivalents at the end of the period	**61.4**	**100.0 %**	**100.5**	**100.0 %**

Cash flow from operating activities was negative EUR 5.6 million in 9M 2022, after positive EUR 87.5 million in 9M 2021. The significant decrease in 9M 2022 is due to lower earnings before taxes and in particular higher cash outflows for net working capital compared with the corresponding prior-year period.

Cash flow from investing activities amounted to negative EUR 52.3 million in 9M 2022 after negative EUR 44.5 million in 9M 2021. The increased use of funds for investing activities is largely due to higher investments in intangible assets as described in the capital expenditure section above.

Finally, net cash outflows of positive EUR 7.3 million were reported from financing activities in 9M 2022, after cash outflows of negative EUR 7.7 million from financing activities in 9M 2021. The inflow of cash in the current period results in particular from the utilization of two credit lines in the total amount of EUR 25.0 million to ensure liquidity as well as from the inflow from capital increases due to the exercise of stock options. This inflow was partially offset by scheduled repayments and interest payments for existing bank loans and payments for lease liabilities. The cash outflow in the previous year's period includes in particular scheduled repayments and interest payments for existing bank loans and payments for leasing liabilities.

Overall, including the net effect of foreign currency translation of positive EUR 2.9 million, cash and cash equivalents significantly decreased by EUR 47.6 million, from EUR 109.0 million at the end of December 2021 to EUR 61.4 million on Sept. 30, 2022. In 9M 2021, cash and cash equivalents had increased by EUR 35.6 million. With the exception of local currency regulations for cash and cash equivalents in China amounting to EUR 2.3 million, there were no significant restrictions at the end of the quarter.

Financing and liquidity

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

Total financial debt increased by EUR 6.0 million to EUR 78.8 million at the end of 9M 2022. While the current portion of liabilities to banks has increased to EUR 55.4 million due the fact that the non-current portion has been fully reclassified, the non-current portion amounts to zero (end of December 2021: EUR 22.5 million). All loans are due for repayment as scheduled in the next twelve months. The current portion of liabilities from leasing decreased by EUR 0.2 million to EUR 5.8 million while the non-current liabilities from leasing decreased by EUR 1.4 million to EUR 17.6 million.

On Sept. 30, 2022, the group had used the available committed borrowing facilities of EUR 10.0 million and EUR 15.0 million in full (on December 31, 2021: unused committed borrowing facilities amounted to EUR 10.0 million).

Net cash represents one of the four key performance indicators for ADVA. Mainly due to the previously described decrease in cash and cash equivalents, net cash decreased significantly from EUR 36.2 million at the end of 2021 to negative EUR 17.4 million (net debt) in 9M 2022. Cash and cash equivalents on Sept. 30, 2022, and on December 31, 2021, were invested mainly in EUR, USD and GBP.

At the end of September 2022 return on capital employed for the rolling twelve months period was at 3.5 %, down from the 11.7 % reported in 12M 2021. This development is mainly due to the negative development of the operating result in 9M 2022.

Summary: Net assets and financial position

Despite the decrease in net cash at the end of 9M 2022, ADVA's net assets and financial position remain strong. The equity ratio decreased slightly to 56.0 % on Sept. 30, 2022 compared to 56.5 % at the end of 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 Sept. 30, 2021, or the group's and the company's financial performance for 9M 2022. Also, there were no events considered material for disclosure.

Outlook

With EUR 179.6 million in Q3 2022, ADVA was able to increase revenues by a substantial 18.3% compared to Q3 2021 with EUR 151.8 million. ADVA has never achieved higher revenues in a quarter. 9M revenues of EUR 516.4 million increased by 15.9% compared to EUR 445.6 million in the 9M 2021 period and are also at record levels. This development underscores ADVA's continued very positive order situation, despite the challenging macroeconomic environment.

In the past quarter, the gross margin of 33.9% was 0.5 percentage points below the year-ago quarter (34.4%), compared to Q2 2022 however the gross margin increased again by 1.2 percentage points from 32.7%. The pro forma EBIT margin of 6.5 percent was also below the year-ago quarter (8.6 percent), but improved by 2.6 percentage points compared to Q2 2022. Against the background of rising procurement costs, this is a very good result.

The company's capital structure remains very solid. ADVA has invested liquidity in maintaining the supply chain and is deliberately building up higher inventories to ensure delivery capability in the subsequent quarters. The company has used lines of credit for short-term financing. Cash decreased slightly from EUR 63.2 million in Q2 2022 to EUR 61.4 million in Q3 2022. Net debt increased from EUR 1.0 million in Q2 2022 to EUR 17.4 million in Q3 2022 due to assuming new financial liabilities in 2022. Leverage was 0.7x, underlining ADVA's leading investment grade profile.

The digitization of ecosystems and the expansion of communication networks is progressing and is supported by public funding programs in many regions and countries. This environment will continue to have a positive impact on demand for the company's products for the foreseeable future. Investments in innovation in recent years have laid the foundation for a differentiated portfolio of solutions with which the company intends to continue expanding its market share. The transformation of the business towards growth markets with a higher share of software and services as well as more verticalization is developing well and should improve the company's margin profile in the long term.

Nevertheless, the entire industry is confronted with solving the challenges arising from the global shortage of semiconductors. In particular, this includes ensuring the ability to deliver as well as significantly higher purchasing costs. These challenges had a substantial impact on margins in the first nine months of the financial year. Management continues to expect that the price level for components will remain high and that the uncertainties in the supply chain remain due to the ongoing zero-covid policy in China. On the demand side, the macroeconomic challenges due to rising prices and interest rates are leading to greater complexity and uncertainty. However, the company currently does not see any additional demand risks for the last quarter of the financial year.

The management still expects revenues of between EUR 680 and EUR 730 million and a pro forma EBIT margin of between 5% and 9%. Furthermore, the management board does not expect any considerable impact from the Ukraine conflict for the 2022 financial year.

The consequent execution of the business transformation strategy will also be the focus of activities in the remaining fiscal year 2022. In connection with continued strict cost management, the management board expects a sustainable pro forma EBIT in the high single-digit percentage of revenues in the medium term.

The group will continue to selectively invest in product development, technology and sales-increasing measures while maintaining cost management.

Nine-month IFRS consolidated financial statements

Consolidated statements of financial position as of September 30, 2022 (unaudited)

(in thousands of EUR)	Sep. 30, 2022	Dec. 31, 2021
Assets		
Current assets		
Cash and cash equivalents	61,381	108,987
Trade accounts receivable	115,298	82,972
Contract assets	189	180
Inventories	177,996	129,205
Tax assets	3,266	331
Other current assets	18,997	13,978
Total current assets	**377,127**	**335,653**
Non-current assets		
Right-of-use assets	20,540	22,491
Property, plant and equipment	34,985	33,326
Goodwill	80,371	71,595
Capitalized development projects	98,497	97,786
Intangible assets acquired in business combinations	10,293	11,982
Other purchased and internally generated intangible assets	14,326	8,540
Deferred tax asset	22,584	15,339
Other non-current assets	5,330	4,812
Total non-current assets	**286,927**	**265,871**
Total assets	**664,054**	**601,524**

(in thousands of EUR)	Sep. 30, 2022	Dec. 31, 2021
Equity and liabilities		
Current liabilities		
Current lease liabilities	5,832	6,001
Current liabilities to banks	55,386	25,289
Trade accounts payable	99,486	83,223
Current provisions	30,570	15,444
Tax liabilities	4,738	5,769
Current contract liabilities and advance payments	22,937	18,811
Refund liabilities	513	931
Other current liabilities	26,979	40,065
Total current liabilities	**246,441**	**195,532**
Non-current liabilities		
Non-current lease liabilities	17,597	19,013
Non-current liabilities to bank	—	22,518
Provisions for pensions and similar employee benefits	8,730	7,401
Other non-current provisions	2,524	2,440
Deferred tax liabilities	4,465	2,151
Non-current contract liabilities	9,047	9,325
Other non-current liabilities	3,489	3,232
Total non-current liabilities	**45,852**	**66,080**
Total liabilities	**292,293**	**261,612**
Stockholders' equity entitled to the owners of the parent company		
Share capital	51,959	51,446
Capital reserve	332,497	327,777
Accumulated deficit	(35,116)	(94,334)
Net income	14,351	59,218
Accumulated other comprehensive income	8,070	(4,195)
Total stockholders' equity	**371,761**	**339,912**
Total equity and liabilities	**664,054**	**601,524**

Consolidated income statements
for the period from January 1 to September 30, 2022 (unaudited)

(in thousands of EUR, except earnings per share and number of shares)	Q3 2022	Q3 2021	9M 2022	9M 2021
Revenues	**179,597**	**151,777**	**516,415**	**445,604**
Cost of goods sold	(119,212)	(100,205)	(349,184)	(282,533)
Gross profit	**60,385**	**51,572**	**167,231**	**163,071**
Selling and marketing expenses	(18,423)	(14,925)	(54,700)	(46,460)
Thereof net impairment results on financial assets	*(152)*	*(82)*	*(1,114)*	*(160)*
General and administrative expenses	(26,895)	(9,994)	(46,826)	(27,685)
Research and development expenses	(23,878)	(18,804)	(67,500)	(57,964)
Other operating income	1,610	1,664	5,671	3,838
Other operating expenses	(121)	(17)	(567)	(695)
Operating income	**(7,322)**	**9,496**	**3,309**	**34,105**
Interest income	22	4	48	93
Interest expenses	(620)	(469)	(1,397)	(1,445)
Foreign currency exchange gains	11,256	2,727	23,284	8,232
Foreign currency exchange losses	(6,595)	(2,093)	(14,364)	(7,011)
Income before tax	**(3,259)**	**9,665**	**10,879**	**33,974**
Income tax benefit (expense), net	4,140	8,813	3,472	7,733
Net income entitled to the owners of the parent company	**881**	**18,478**	**14,351**	**41,707**
Earnings per share in EUR				
basic	0.02	0.36	0.28	0.82
diluted	0.02	0.36	0.28	0.81
Weighted average number of shares for calculation of earnings per share				
basic	51,935,627	50,942,656	51,666,574	50,665,282
diluted	52,071,192	51,913,094	51,802,139	51,635,720

Consolidated cash flow statements (unaudited)

(in thousands of EUR)	Q3 2022	Q3 2021	9M 2022	9M 2021
Cash flow from operating activities				
Income before tax	(3,259)	9,665	10,879	33,974
Adjustments to reconcile income before tax to net cash provided by operating activities				
Non-cash adjustments				
Amortization of non-current assets	17,020	17,494	52,358	52,126
Loss from disposal of property, plant and equipment and intangible assets	20	173	91	263
Stock compensation expenses	1,010	428	1,849	1,093
Other non-cash income and expenses	322	370	997	1,170
Foreign currency exchange differences	(925)	(1,120)	(3,838)	(757)
Changes in asset and liabilities				
Decrease (increase) in trade accounts receivable	(3,431)	5,437	(32,335)	(5,590)
Decrease (increase) in inventories	(19,139)	(3,074)	(48,791)	(10,689)
Decrease (increase) in other assets	(3,263)	(1,256)	(5,565)	(5,557)
Increase (decrease) in trade accounts payable	11,004	(327)	15,480	15,602
Increase (decrease) in provisions	2,542	1,030	15,786	12,410
Increase (decrease) in other liabilities	(302)	(107)	(8,360)	(4,876)
Income tax paid and refunded	(975)	(314)	(4,118)	(1,642)
Net cash provided by operating activities	**624**	**28,399**	**(5,567)**	**87,527**
Cash flow from investing activities				
Investments in property plant and equipment	(5,425)	(3,867)	(12,238)	(9,888)
Investments in intangible assets	(12,199)	(11,174)	(40,040)	(34,642)
Interest received	22	(30)	28	4
Net cash used in investing activities	**(17,602)**	**(15,071)**	**(52,250)**	**(44,526)**
Cash flow from financing activities				
Proceeds from capital increase and exercise of stock options	379	3,817	3,943	4,615
Repayment of lease liabilities	(737)	(1,645)	(3,078)	(3,528)
Proceeds from liabilities to banks	25,000	—	25,000	—
Cash repayment of liabilities to bank	(10,000)	—	(17,500)	(7,500)
Interest paid	(370)	(412)	(1,038)	(1,335)
Net cash used in financing activities	**14,272**	**1,760**	**7,327**	**(7,748)**
Net effect of foreign currency translation on cash and cash equivalents	900	402	2,884	379
Net change in cash and cash equivalents	**(1,806)**	**15,490**	**(47,606)**	**35,632**
Cash and cash equivalents at the beginning of the period	63,187	85,023	108,987	64,881
Cash and cash equivalents at the end of the period	**61,381**	**100,513**	**61,381**	**100,513**

Financial calendar

Extraordinary General Meeting	November 30, 2022 Meiningen, Germany
Publication of financial results 2022	February 21, 2023 Martinsried/Munich, Germany

Forward-looking statements

This document contains forward-looking statements using words such as “believes”, “anticipates” and “expects” to describe expected revenues and earnings, anticipated demand for optical networking solutions, internal estimates and liquidity. These forward-looking statements are based on the beliefs of the management board and respective assumptions made, and involve a number of unknown risks, uncertainties and other factors, many of which are beyond ADVA’s control. If one or more of these uncertainties or risks materializes, or if the underlying assumptions of the management board prove incorrect, actual results can differ materially from those described in or inferred from forward-looking statements and information. ADVA's supply chain has been affected by the global semiconductor crisis: component delivery times have increased significantly and, despite many countermeasures, ADVA's delivery times to customers are also increasing. Although potential future component bottlenecks are systematically identified and analyzed, and supply chain management actively counteracts them, the risk remains that not all customers can be supplied within a timeframe that is satisfactory to them. In addition, due to the spread of existing and new Covid-19 variants, new outbreaks of infection can be expected and the risk of supply chain disruption continues. In this regard, supply chain disruption can arise from three scenarios: the potential closure of one of our manufacturing and or distribution sites due to viral infection, supply chain disruption with one or more of our manufacturing service providers, or government orders to cease production at our key manufacturing sites. Furthermore, we see a risk due to a recession driven decline in demand, as well as potential increased risk of default of individual customers. All other risks and uncertainties remain unchanged and are explained in the "risk and opportunity report" section of the Group Management Report 2021.

Glossary

Capital employed

The capital employed is the difference between the average balance sheet total and the average current liabilities of the previous 12M period, calculated as the arithmetic average of the quarterly balance sheet date values.

DPO (days payable outstanding)

The key figure indicates the average number of days between receipt of invoice and outgoing payment.

DSO (days sales outstanding)

The key figure describes the average number of days between invoicing and receipt of payment.

Leverage

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. This is a new ratio from 2018 onwards due to covenant requirements. Prior period information in the multi-year overview has been calculated accordingly.

Net cash

Net cash is calculated by subtracting financial debt comprising of current and non-current liabilities to banks and current and non-current lease liabilities according to IFRS 16 Leases from cash and cash equivalents. A negative calculation result is referred to as net debt .

Net promoter score (NPS)

The NPS 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.

Pro forma EBIT

Pro forma EBIT 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 M&A and restructuring measures are not included.

ROCE (return on capital employed)

ROCE is the operating result for the previous 12M period divided by the capital employed.

Working capital

Working capital is defined as the total of trade accounts receivable and inventories less trade accounts payable.

Working capital ratio

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

Impressum

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ADVA on the web

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

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

Investor communication

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Disclaimer:

Potential inconsistencies in the table values are based on rounding differences.